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Finanční analýza společnosti Lenovo

Financial Analysis of the Lenovo Company

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Description:

1. Introduction
2. Description of the financial analysis methodology
3. Description of Lenovo company
4. Financial analysis of Lenovo company
5. Conclusion

Bibliography
List of Abbreviations
Declaration of Utilization of Results from the Bachelor Thesis
List of Annexes
Annexes

References:

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The declaration

"Herewith I declare that I elaborated the entire thesis, including all annexes, independently."

Ostrava dated May 10, 2013

peiye shi
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Student's name and surname

Content

1 Introduction

The financial analysis is management activities that evaluate business activities, profitability, operating capacity, and solvency. It is based on report data and other relevant information and uses financial methods to analysis the satiation of the company. It provides a lot of information for the manager. The manager can make decision from that information.

The Lenovo is a PC manufacturer from china. This thesis is based on the report from 2008 to 2012 and uses financial analysis methods to analyze the company. By analyzing that data, we can know the situation of the Lenovo including its activity, profitability, and solvency. The main purpose is to estimate the company and get a deep understanding of the company.

In chapter 2, the objective of the part is to introduce the financial analysis methods. The common-size analysis and ratio analysis is the main content. In the common-size analysis, it is divided into vertical common-size analysis and horizontal common-size analysis. In the ratio analysis, there have four ratios: activity ratios, liquidity ratios, solvency ratios, profitable ratios. Beside those, the DuPont analysis is introduced in this part.

In chapter 3, it will describe the company's history, strategy, market share in different regions and their products. Those are the basic information about the Lenovo. We will get an outline of the company.

In chapter 4, we will use the analysis methods to analysis the company. In profitability ratios, it measures the company's ability to generate profit from asset. In liquidity ratios, it measures the ability to meet short-term obligations. In solvency ratios, it measures the ability to meet its long-term debt. In activity ratios, it measures the efficiency of assets usage. The data comes from the company's income statement, balance sheet, and cash flow in five years. Calculating those date, we will get a further understanding of the company. We can know the shortage and strength of the company. That information guides the company how to do in next step.

The last chapter is a conclusion made. From the previous chapters we get enough information about the company. We know the reason of the change in chapter 4. So we can make some conclusions in that information and reasons.

2 Description of the financial analysis methodology

In this part the three methods will be introduced: common size analysis, financial ratio analysis and DuPont analysis. At first we should know the basic financial statement[1].

2.1 The basic financial statements

Much of financial analysis takes as its starting points the basic financial statements of the firm. It is therefore crucial that the analyst have a strong fundamental understanding of these statements. There are three basic financial statements: income statement, balance sheet, cash flow.

2.1.1 The income statement

Income statement is to reflect the company profit (or loss) of the financial statements in a certain period (a certain period). It is a dynamic report. The profit and loss account in the report provides the relevant information needed for the reader. It is good for making rational economic decisions. It can be used to analyze the reasons of profit and changes in the company's operating costs and value evaluation made in the investment.

The income statement can be used as the basis for allocation of operating income. The income statement reflects operating income, operating costs, operating costs, business tax, operating income, expense items, and the final calculation of the profit indicators in a certain period. The data on the income statement directly affects the interests of many groups, such as the national tax revenue, management bonuses, workers' wages, other remuneration, and shareholders' dividends.

The profit and loss account can be used to analyze the profitability of enterprises, to predict the company's future cash flow. It reveals the details of the operating profit, net investment income, operating income, net profit and loss account. According to analyze the level of

[1] In this chapter, most of these methodology are based on the book:
Corporate Finance: a practical approach Author: Clayman M.R., Fridson M.S., Troughton G.H. John Wiley, 2008. ISBN: 978-0-470-19768-4.

profitability it also can assess the profitability of enterprises.

2.1.2 The balance sheet

The balance sheet represents a certain date of the financial position. Balance sheet According to accounting principle of balance, it divides the assets, liabilities and equity into two parts, the assets and the liabilities with shareholders' equity. After entry, transfer, ledger, trial balance, adjusting and accounting procedures, it can be made into a report. In addition to the internal debugging, business direction and to prevent the drawbacks, it also shows the readers the business conditions.

The balance sheet provides information about the financial position of enterprises. In balance sheet, it provides a certain date, such as the total amount of assets and its structure, the distribution of resources that enterprises owned or controlled. The total liabilities and its structure can be provided in the balance sheet. It also can reflect the equity, such as judging the value of their capital, value-added and liabilities level of protection. Balance sheet can also provide financial analysis of basic information, such as current ratio, quick ratio, the solvency and liquidity ability. That will help the users of the financial statements to make economic decisions.

2.1.3 Cash flow

The cash flow statement is to reflect the inflows and outflows of cash and cash equivalents statements in certain period. As an analytical tool, the main role of the statement of cash flows is to determine the company's short-term survival ability, especially the ability to pay the bills. The function of the cash flow as follow:

- Reflecting the company's cash flow, and evaluating the company's future ability to generate net cash flow.
- Evaluating the ability to repay the debt, payment of investment profits.
- Showing the difference between the net income and cash flow, and explaining the causes of the difference.

2.2 Common-size analysis

Common size analysis is a method to overview the situation of company. By comparing different times of the financial statement, the reader will get a further comprehension of the company. In the common-size analysis there has a benchmark. The benchmark is stated by percentage. The rest items are also stated in percentage that depends on the benchmark. For example, if I take the total revenue as a benchmark, the total revenue is 100%. The cost of revenue takes a certain percentage. The number may be 60% or 50% or any else. By this way we can know the financial position of company. The common-size analysis is always used in balance sheet and the income statement.

2.3 Financial ratio analyses

Ratio analysis is based on a number of important projects in the same period financial statements data. In financial analysis the ratio analysis is a basic tool of the financial analysis. By working out the ratio we can analyze and evaluate the company's business activities and the company's current and historical situation.

2.3.1 Liquidity ratios

The liquidity ratio is financial indicators that used to measuring enterprise's the ability to repay short-term debt. The calculation data is from the balance sheet. In general, the higher the liquidity ratio means the ability to repay short-term debt is the stronger. To evaluate this ability, it is always used the current ratio and the quick ratio.

a) The current ratio

The current ratio is the most commonly used financial indicators to measuring enterprise's ability to repay short-term debt. It is defined as:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}, \tag{2.1}$$

In general, if the company has a higher the liquidity ratio, we can say the ability to repay short-term debt is stronger. In normal circumstances, the operating cycle, the current assets in the amount of accounts receivable and inventory turnover rate is a major factor affecting the liquidity ratio. Is this ratio higher or lower? That depends on the current ratios calculated is higher or lower in the industry average liquidity ratio. Generally speaking, the reasonable minimum current ratio is 2. This is because the inventories have the least Liquidity in current assets, and the rest of the strong liquidity assets are at least equal to current liabilities. That will have to ensure the short-term solvency.

b) The quick ratio

Quick Ratio is the ratio of liquid assets to current liabilities. It is a measure of enterprise-current assets whether immediately are used in the ability to repay current liabilities. Quick assets consist of monetary funds, short-term investments, notes receivable; accounts receivable, other receivables and other liquid assets. That can be realized in a relatively short period. The Inventories should not be included in it. It is calculated as:

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}}, \tag{2.2}$$

In traditional experience, the quick ratio remains at 1:1 is more normal. It indicates that for every \$ 1 current liabilities can be paid by \$ 1current assets. The short-term solvency can be guaranteed. Quick ratio is too low, and the risk of short-term debt is higher. The quick ratio is too high, that will increase the opportunity cost of the company's investment.

2.3.2 Activity ratios

Activity ratios provide information about the company's utilization of their assets. For example, if two firms have the same amount of revenue, the one firm has a lower investment in the inventories. We can say that the firm has more efficiency in their inventory.

a) Inventory turnover ratio

The inventory turnover rate is the ratio of the main business cost to average inventory balance. It is used to reflect the inventory turnover rate. The inventory turnover rate is an important indicator of business operations Analysis. It is widely used in enterprise management decision-making. The inventory turnover rate is not only can be used to measure various aspects of the production and operation of inventories operational efficiency, but also be used to evaluate the enterprise's operating results, and to reflect the performance of the enterprise. It is calculated as:

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}, \tag{2.3}$$

The higher the inventory turnover rate shows that the ability of realization of assets is stronger and the cash flow is faster. The purpose of the inventory turnover is finding out the problem in inventory management from different angles and aspects. Under guarantying the business continuity, the company should try their best to improve efficiency in the use of funds and enhance their short-term solvency.

b) Accounts receivable turnover ratio

Accounts receivable turnover ratio is the average times that accounts receivable converted to cash in a given period (usually a year). Accounts receivable turnover ratio is the sales revenue divides by the receivables. It is calculated by:

$$\text{Accounts Receivable Turnover Ratio} = \frac{\text{Revenue}}{\text{Accounts Receivable}}, \tag{2.4}$$

In general, the higher the accounts receivable turnover ratio indicates that the receivables are faster. Otherwise, the working capital of the enterprise will be sluggish too much in receivables, affecting the normal cash flow. There are a number of factors affecting the correct calculation of the indicators: seasonal enterprises, extensive installment used; extensive cash-settled used. These factors will have a greater impact on the calculation results.

c) Total asset turnover ratio

The total asset turnover ratio is that the revenue divides by total assets in a given period sales. The total asset turnover ratio is a comprehensive evaluation of the assets of the enterprise. It is an important indicator of the quality of operations and utilization efficiency of the assets. The greater the turnover rate, the faster the total asset turnover. It reflects the stronger the ability to sell. By the small profits but quick turnover the turnover of assets will be speeded up. It is calculated by:

$$\text{Total Asset Turnover} = \frac{\text{Sales}}{\text{Total Assets}}, \tag{2.5}$$

The total asset turnover comprehensively reflects the operating capacity of the enterprise. In general, the more times of asset turnover indicate that the turnover rate is faster and the operating capacity is the stronger. On this basis, further analysis from the various constituent elements, in order to identify the total asset turnover lift. On this basis, we can find the reason of the changes in further analysis from the various constituent elements.

d) Working capital turnover

The working capital turnover ratio is the ratio that the net sales are divided by working capital. It reflects the times of the working capital turnover within a year. It is an important indicator for fully reflecting the economic efficiency of enterprises is. It is calculated by:

$$\text{Working capital turnover} = \frac{\text{Total Revenue}}{\text{Average Working Capital}}, \tag{2.6}$$

There is no a universal standard measure of working capital turnover rate. Comparing with other businesses or the industry average the indicator can make sense. It can be said if the working capital turnover rate is too low, it indicates that the working capital utilization rate is too low. If the working capital turnover rate is too high, it indicates that the lack of capital and the business has the debt crisis.

2.3.3 Solvency ratios

The solvency of the company contains short-term solvency and long-term solvency. In this part reflects the long-term solvency. The solvency ratios contain long-term debt ratio, equity-to-liabilities ratio, debt ratio, leverage ratio, equity ratio, fixed assets, long-term liabilities ratio.

a) The total debt ratio

The asset-liability ratio is the percentage of enterprises that total assets is occupied by the total liabilities. This indicator reflects the proportion of total assets provided by the creditors, and reflects the credit funds risk, and also reflects the ability of the enterprise leverage. It is calculated by:

$$\text{Total Debt Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}, \qquad (2.7)$$

In business management, the total debt is not static, and it depends on point of views. In the point of view of the creditor, the total debt ratio is the lower and the better. In the point of the shareholder, it can be benefit from the higher total debt ratio. In the point of the manager, they care about getting profit from the assets borrowed and reducing the risk of the debt. But in general view, a reasoned level of total debt ratio is 40% to 60%.

b) The long-term debt ratio

The long-term debt ratio is the ratio that the long-term debt is divided by total assets. It is calculated by:

$$\text{Long} - \text{Term Debt Ratio} = \frac{\text{Long} - \text{Term Debt}}{\text{Total Assets}}, \qquad (2.8)$$

The smaller the index value indicates that the lower level of capitalization of corporate liabilities, and the lower long-term debt pressure. On contrary, it indicates the higher level of capitalization of corporate liabilities, and the higher long-term debt pressure. This indicator is used to reflect the need to repay the interest-bearing of the long-term liabilities, and thus the index should not be too high. In general it should be less than 20%.

c) The debt to equity ratio

This ratio is one of the indicators to measure long-term solvency. It is an important symbol of the soundness of corporate financial structure. It is calculated by:

$$\text{Debt to Equity Ratio} = \frac{\text{Total Debt}}{\text{Total Equity}}, \qquad (2.9)$$

The higher the equity ratio indicates the weaker the enterprise's ability to repay long-term debt.

The lower the ratio indicates the stronger the ability of enterprises to repay long-term debt. In general, the lower the ratio indicates the higher the level of protection of the interests of creditors. It's fine when this ratio is 1. But we should be combined with the specific situation of enterprises to be analyzed. When the return on assets is higher than the cost of debt rate, it is conducive to improve the rate of capital gains, if the company has a higher debt rate. The High equity ratio is the high-risk financial structure. The low equity ratio is the low-risk and low-paid financial structure.

2.3.4 Profitability ratios

The profitability ratio refers to the ability to make a profit. It is the basis for enterprise survival and development. Many kinds of people are very concerned about it. No matter the investors, creditors and corporate executives, there is a increasing attention to concern corporate profitability. There are many Indicators of the profitability of the business. The main indicator commonly used is the operating profit margin, gross profit margin, net profit margin, ROE, and ROA.

a) The gross profit margin

The gross profit margin is a percentage that gross profit occupies the total revenue. It is calculated by:

$$\text{Gross Profit Margin} = \frac{\text{Gross Profit}}{\text{Revenue}}, \tag{2.10}$$

From the above formula, increasing the total revenue or reducing the production costs can improve gross margins. Because the prices of our products affect the sales revenue, so the indicator reflects the cost control and product pricing. The gross profit margin is the basis of profit margin. The higher gross profit margin indicates the smaller the proportion of the enterprise cost in the total revenue. The cross profit margin relates to the competitiveness of enterprises and enterprises in what the industry.

b) The operating profit margin

Operating profit margin is the ratio that operating income and revenue. The operating profit margin is calculated as:

$$\text{Operating Profit Margin} = \frac{\text{Net Operating Income}}{\text{Revenue}}, \tag{2.11}$$

The higher the operating profit margin indicates the stronger the profitability of the enterprise. On the contrary, the lower the ratio indicates the weaker profitability of the business. There are five factors influence the operating profit margin: the number of sales; the average selling price per unit of product; per unit product manufacturing costs, The ability to control administrative expenses, Ability to control marketing costs.

c) The net profit margin

Net profit margin is also known as operating profit margin reflects an important indicator of the profitability of the Company. It is a margin that deducting all costs, expenses and corporate income tax. The profit margin is calculated by:

$$\text{Net Profit Margin} = \frac{\text{Net Income}}{\text{Sales}}, \tag{2.12}$$

Only concerning about the changes in the absolute amount is not enough to reflect the changes in the company's profitability. It should require a combination of changes in the main business income. For example, if the main business revenue growth is faster than the net profit growth rate, the company's net profit margin will decline indicates the profitability of the company on the decline. On the contrary, if the net profit growth is faster than revenue Net profit margin indicates that the company profitability is enhanced. Therefore, the net profit margin is better than the net profit.

d) Return on total assets

The return on total assets is calculated by:

$$\text{Return on Total Assets} = \frac{\text{Net Income}}{\text{Total Assets}}, \tag{2.13}$$

Return on total assets is a very useful analysis of the profitability of the company. When assessing a corporate profitability, the investors tend to focus on the return and they often combines earnings per share (EPS) and net assets yield (ROE) and other indicators to judge. In fact, the total return on assets (ROA) is a more effective indicator. The level of total return on assets directly reflects the company's competitive strength and development. It also is an important basis to determine whether the company can operate with debt.

e) Return on equity

It is an important indicator to measure the profitability of listed companies. Return on equity is the ratio that a net profit is divided by the total equity. The higher the index indicates the higher the investment benefits. The lower the return on equity indicates the weaker profitability of the enterprise owners' equity. We can calculate the return on total equity as:

$$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Total Equity}}, \tag{2.14}$$

ROE can measure the invested capital utilization efficiency of its shareholders. It makes up for the lack of indicators of after-tax profits per share. For example, after the bonus issue of shares, the earnings per share of the company will decline, thus it gives a false impression among investors that the decline in the profitability of the company. In fact the company's profitability has not been changed. Return on assets is more appropriate to analyze the profitability of the Company.

2.3.5 The DuPont analysis

DuPont analysis uses several key financial ratios to comprehensively analyze of the financial position of the enterprise. This analysis method is first used by the DuPont Company. That’s why we call the DuPont analysis method. DuPont analysis is used to evaluate the level of corporate profitability and return on shareholders' equity. From a financial point of view, this is a classical method to evaluate enterprise performance. The basic idea is divided into the three parts. In every parts it helps us has a deep analysis and gives a comparison of business performance. In a DuPont analysis, the formula for ROE is:

$$\text{ROE} = \text{Profit Margin x Total Asset Turnover x Leverage Factor}, \tag{2.15}$$

The formula breaks down further to:

$$\mathrm{ROE} = \frac{\text{Net income}}{\text{Revenue}} \times \frac{\text{Revenue}}{\text{Total assets}} \times \frac{\text{Total assets}}{\text{Equity}}, \tag{2.16}$$

The most notable feature of the DuPont model uses certain ratio to evaluate the efficiency of business and financial position. And then forms a complete index system to comprehensively reflect the Equity. By using this approach, the financial ratio analysis is organized more prominently and clearly. It is convenient for the analyzer to understand the business and profitability of convenience. DuPont analysis helps corporate management to clearly see the mutual relationship amount net profit margin, total asset turnover ratio and debt ratio.

3 Characterization of the Lenovo Company

In this chapter we will introduce the basic situation about the Lenovo[2].

3.1 Introduction about the Lenovo

Lenovo Group was founded by 11 scientific in 1984, it was invested 200,000 Yuan by the Chinese Academy of Sciences. Until now it has developed into a large enterprise groups. Lenovo Group has two headquarters. One is located in Beijing, China global administrative headquarters of Lenovo Group Lenovo. Another one is located in New York and called the International Lenovo. In 2004 the Chinese Lenovo group purchases the IBM's PC business. And then they established the two main operations center in Beijing and the Carolina Raleigh in United States North. The new Lenovo's sales network includes the sales organizations of Lenovo, business partner and the IBM. That is throughout the world. The Association has more than 27,000 employees in over the world. R & D centers are distributed in China, Beijing, Shenzhen, Xiamen, Chengdu and Shanghai, Tokyo, Japan and the United States of America North Carolina Raleigh.

3.2 History of the Lenovo

- 1984- The Lenovo was founded by 11 people. The name is Chinese Academy of Sciences new technology Development Company.
- 1988- The company was created by New Technology Development Company, COSCO and Chinese technology Transfer Company. In this year the company uses Legend as their name.
- 1996- The Lenovo is better than the foreign brands in Chinese the market share and keeps first place for 6 years.
- 1999- The PC sales occupied 8.5% market share in the Asia-Pacific market. In sales Lenovo is number one in Asia-Pacific.

[2] This chapter most information from http://www.lenovo.com/lenovo/hk/en/index.html

- 2004- Lenovo Group and IBM signs agreement for acquisition of IBM's Personal Computing Division.
- 2006- The Lenovo Deepcomp6800 computer gets Technology Progress Award in the 2005 National Science. It proves that Lenovo has obvious technical advantages in the field of high performance computing.
- 2006- In the Winter Olympics of Turin, Lenovo 5000 desktop computer are provided for the Winter Olympics of Turin. Nearly 600 laptops, nearly 400 servers and 600 desktop printers as technical support are used in Winter Olympics. The outstanding performance and zero faults are successfully supporting the Turin Winter Olympic Games.
- 2007- Beijing Olympic Organizing Committee and the International Olympic Committee (IOC) jointly announce that the Lenovo Group becomes a global partner of the Beijing 2008 Olympic Torch Relay. At the same time, Lenovo designs the Beijing Olympic Games Torch "clouds" program.
- 2008- Lenovo Group announces launches the Idea Pad notebooks and Idea Centre Desktop PC series in January 2008, and announces its will entry into the global consumer PC market.
- 2009- Lenovo purchases Mobile Communication Technology Company (Referred to as "Lenovo Mobile") in November 2009. This acquisition marks the Lenovo will fully enter the fast-growing mobile Internet market.
- 2010-In Las Vegas, Lenovo releases the mobile Internet strategy, and launches its first generation of mobile Internet terminals: smart of the Skylight, smart phone music phone and a new innovative notebook computer Idea Pad U1. The idea pad U1 notebook computer wins "Best of CES Award".
- 2011- the world's leading market research firm IDC releases the preliminary statistics shows that Lenovo's shipments has surpassed Dell to become the world's second-largest PC maker.
- 2012-Lenovo Group ranking is improved to 370 in the 2012 Fortune Global 500 and Lenovo PC sales are largest in the world.

3.3 PC industry

The former PC Company can be described as flourishing industry, but now it is depressed. PC Company seeks diversified development, in order to find a new way to break the embarrassing situation. The secondary PC companies to change the strategy and is waiting to be purchased. The latest data show that PC sales decrease 14% year-on-year in the first quarter of 2013. This is a highest decline since 1994.What is exactly the problem in the PC industry. What’s reason leads the industry to come to today's situation?

The depressed market economy has a great impact on the PC industry. In addition, the tablet PC has a great pressure on the PC industry. Although it’s ridiculous the table PC will take place of the notebook, we have to admit the Tablet PC attracted a lot of consumers from the notebook. In some work and entertainments the consumer can get a better experience on the tablet PC. It is convenient to take it in many places. Anywhere it is very different from the traditional PC products. Smart cellophane is another product impacting the traditional Pc products. They have very similar function, such as searching on the internet, reading book and so on. A part of consumers leaves off the notebook. It has been said that the PC upgrade cycle is 3 years. After 3 years, the failure rate will reach a surprise degree. In fact many consumers are still using their computer in 3 years. The longer expected life of the PC is another reason why the sales is decreasing year-on-year. The rapid rise of Smartphone and tablet PC takes away some parts of the market, while the rest of the consumers are still holding their previous computer. That why the PC industry is in a bad situation.

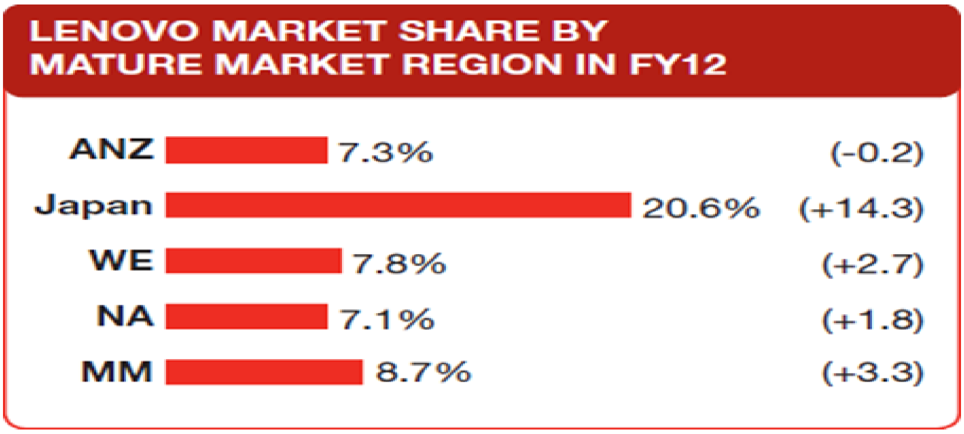
3.4 Market share in 2011-2012

In china, emerging market, and mature market, the market share has a great growth. Especially in china and Japan the market share is number one. With the increasing of the sales, the scale of economics is more prominent. In this year the Lenovo concentrates on innovation, brand and MIDH business in emerging market. In the future the Lenovo will benefit from those.

3.4.1 Lenovo market share by mature market region

The revenue takes 42% of the total revenue in the mature market. The Lenovo has good performance in their sales and has a better profitability. The sales increase 53% in mature market. However the whole market declines 5%. In this fiscal year the market share increases to 8.7%. In the fourth quarter the market is 10.1%. Lenovo continues to benefit from the corporate PC demand. At the same time through the transaction mode and channel strategy, the development of the SME business has a great growth. In addition, through retail channel development and investing brand, the coverage of the market has a further expansion. The sales increased by 30% year-on –year in North America. The market share reaches 7.1%. Due to the business combination with NEC personal computer business and Medion business, the Lenovo has a good performance in Japan and Western Europe. In Western Europe the sale increases 37% and the market share reaches 7.8%. In Japan the sale increases 237% and the market share reaches 20.6%.

Figure 3.1: Mature market region in 2012



ANZ: Australia and New Zealand.

WE: Western Europe.

NA: North America.

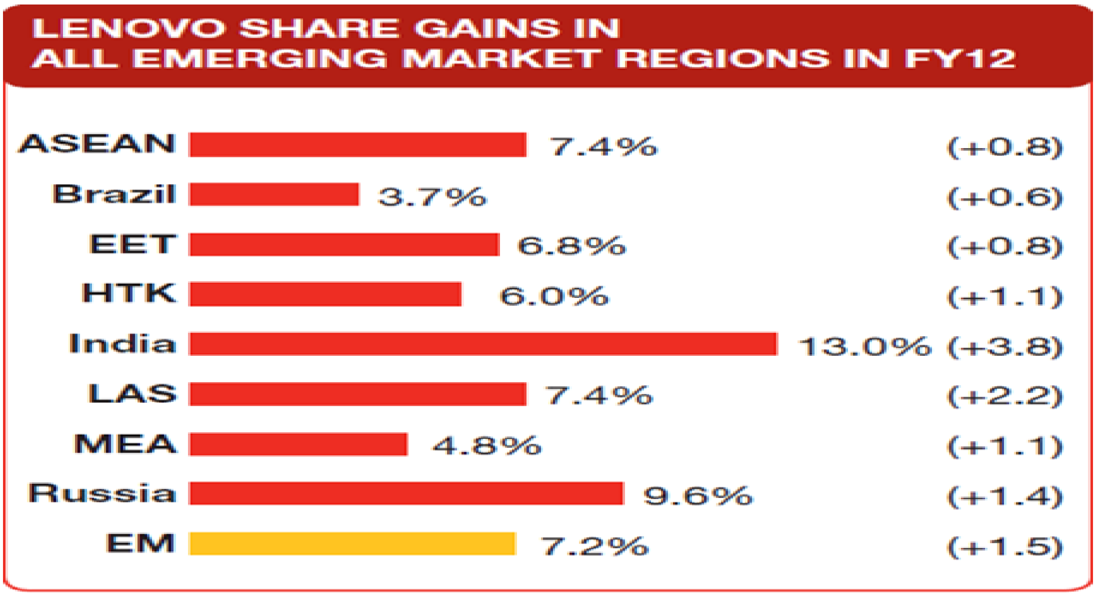
MM: Maturity Market

Source: http://www.lenovo.com/ww/lenovo/pdf/report/E_099220120531d.pdf

3.4.2 Market share in emerging market regions

In emerging market the revenue take 16% of the total group's revenue. In this fiscal, the group continues to show a strong trend in emerging market. Through improving distribution channels and product structure and investing the brand and market, the sales increase 38%. The market share increases to 7.2%. In India the Lenovo has become the largest PC maker and occupies the13% market share. In Russian the Lenovo is the third largest PC maker. In this year the loss is 9,400 million dollar in emerging market. The Lenovo plan to reach the leader position at first, and then seek to expand profitability.

Figure 3.2: Emerging market regions in 2012



EET: Eastern Europe and Turkey

ASEAN: Association of Southeast Asian Nation

HTK: Hong Kong Taiwan Korea

LAS: Latin America

MEA: middle East and Africa

Source: http://www.lenovo.com/ww/lenovo/pdf/report/E_099220120531d.pdf

3.4.3 Market share in china

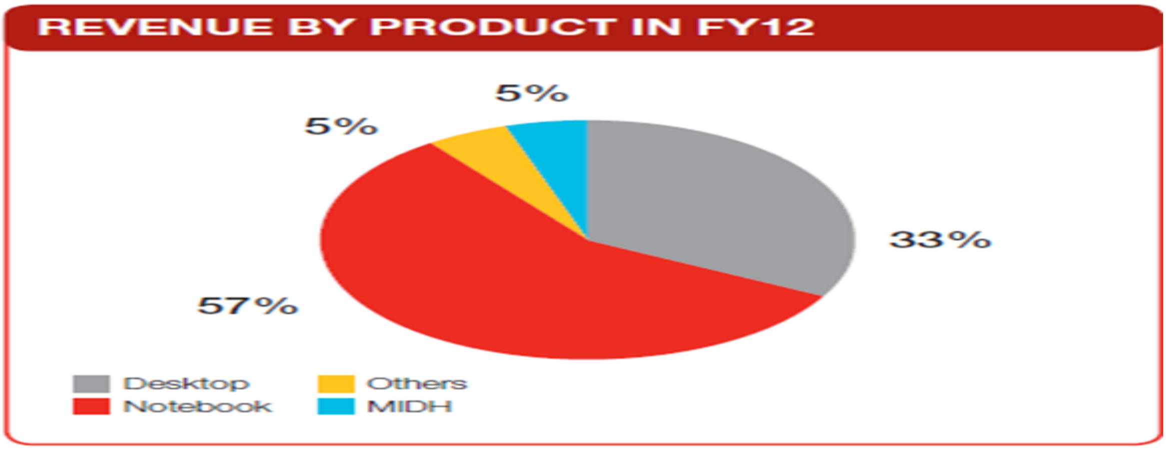
China takes 42% of the group's total revenue. Although the Chinese government takes austerity measures and the growth rate of economic grows slower, in china the growth of PC market is higher than the global PC market. That mainly is because the emerging city has strong demand for PC. In 2012 year the Chinese growth of PC market is 13% year-on -year. China is still the world largest PC market.

In this fiscal year, Lenovo's performance in China continues to outperform the market expected, and further expanding the leading position in China. Group continue to ensure that its policy Strategy to defend its leadership position in the mature cities, while actively attacking emerging small cities and rural areas. With the development of economic, there has a strong demand in those small cities and rural areas. The sale increases 25% in this fiscal year in china. The market share increases to 32%. With the leading position in China's PC market, Lenovo and Strong customer base the Lenovo continues to expand its MIDH business in China, and launches a number of new smart phones and tablet computer products. Smartphone market share has reached 9.5% in the fourth quarter of the fiscal year. Tablet PC product also successfully occupies half of the market share of Andrews tablet market. As new products the MIDH has a good beginning. The aggressive growth of China's mobile Internet market laid the foundation for the future.

3.5 Revenue by product

In this part the situation of the product will be introduced. How many revenue occupies the total revenue? How about the situation of their sales?

Chart 3.3: Revenue by product in 2012



Source: http://www.lenovo.com/ww/lenovo/pdf/report/E_099220120531d.pdf

3.5.1 Notebook products

Notebook products take 57% revenue of the total revenue. From this we can know the notebook product is the main source of the profit. In this year the sale of the notebook PC has a great growth and the market share is also rising. The sale of the notebook increases 36%. The whole market share just increases 5%.

3.5.2 Desktop products

The revenue of the desktop product takes 33% of the total revenue. In desktop PC, the Lenovo is successful in development of one machine business in the fourth Quarter and becomes the world's largest one machine manufacturers. The desktop product’s sale grows 34% year-on-year. The growth of the global desktop PC market is 0.5%. According to industry estimates, Lenovo year-on-year increases 3.2 % points to 12.8% market share in the global Desktop PC market. The ranking is promoted to the second position from the third position in last year.

3.5.3Mobile internet products

MIDH revenue takes 5% of the total revenue. Lenovo's mobile Internet business has a Strong growth in this fiscal year. That mainly is derived by the strong growth of mobile phone market in China. The growth of the Mobil is better than the whole of the Mobil market. The Lenovo in China's Smartphone market share is increased by 8.6 % in the fourth quarter. It has 9.5% of the whole Mobil market share. In whole year the smart phone market reaches 5.8%. The growth rate is 4.6%. The traditional Chinese Mobil market has a further decline. It is affected by the smart cellophane. In table PC, the Lenovo launches a series of different screen size table PC. In fourth quarter the sale is 5.3 times than the first quarter. Lenovo is Chinese largest Android system Tablet PC Suppliers.

4 Financial analysis of Lenovo

In this chapter, we will use the financial analysis methodology to analyze the situation of Lenovo Company. It is divided into three parts: Common size analysis, financial ratio analyses and the DuPont analysis. We will further understand the situation about Lenovo Company by using those methodologies.

4.1 Vertical common-size analysis

In the table 4.1, we can see the percentage of cost of sales is very large. From 2008 to 2012, the percentage of cost of sales is 85%~90% in five years, and the percentage change is very small. From 2008 to 2010, the cost of sale is increasing until 2012 the cost of sale is decreased to 88.35%. Of course, it will lead to the decrease of gross profit. Intense competition and mature market are the main reason of high percentage cost of sales. Because in mature market, there are not big difference between products from different companies so the competition in this market is very intense. We can notice that the percentage of gross profit is 10%~15% in five years from the table. From 2008 to 2010, the gross profit is decreasing. From 2011 to 2012, it has a small increase. Generally speaking, the cross profit of Lenovo is small. If adding selling and distribution expenses, administrative expenses and research and development expenses, the net income will be a smaller amount. The table 4.1 shows us the net income in five years. In 2008, the net income is 2.97% and highest percentage in five years. But in 2009, the net income is a negative amount. After the 2009, the net income has a small increase from 0.78% to 1.61% in three years. Although from 2010 to 2012 the net income is increasing, totally the net income of Lenovo is not so large. Above the situations can be reflected in chart 4.1.From chart 4.1 we can easily find the cost of sales occupied the most of part.

Table 4.1 Common-size income statement of Lenovo

	2008	2009	2010	2011	2012
Sales	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of sales	85.02%	88.31%	89.22%	89.05%	88.35%
Gross profit	14.98%	11.69%	10.78%	10.95%	11.65%
Other income – net	0.11%	0.01%	0.50%	0.00%	0.00%
Selling and distribution expenses	6.75%	6.30%	5.06%	4.81%	5.72%
Administrative expenses	3.64%	4.21%	3.41%	3.33%	2.47%
Research and development expenses	1.41%	1.48%	1.29%	1.41%	1.53%
Other operating expenses – net	0.24%	1.12%	0.21%	0.37%	0.04%
Operating profit	3.05%	-1.41%	1.32%	1.77%	1.97%
Finance income	0.32%	0.40%	0.12%	0.12%	0.14%
Finance costs	0.23%	0.26%	0.38%	0.23%	0.15%
Share of profits of associated companies	0.00%	0.00%	0.00%	0.00%	0.00%
income before taxation	3.14%	-1.26%	1.06%	1.66%	1.97%
Taxation	0.29%	0.26%	0.28%	0.39%	0.36%
Net income	2.97%	-1.52%	0.78%	1.27%	1.61%

Chart 4.1 Common size income statement of Lenovo

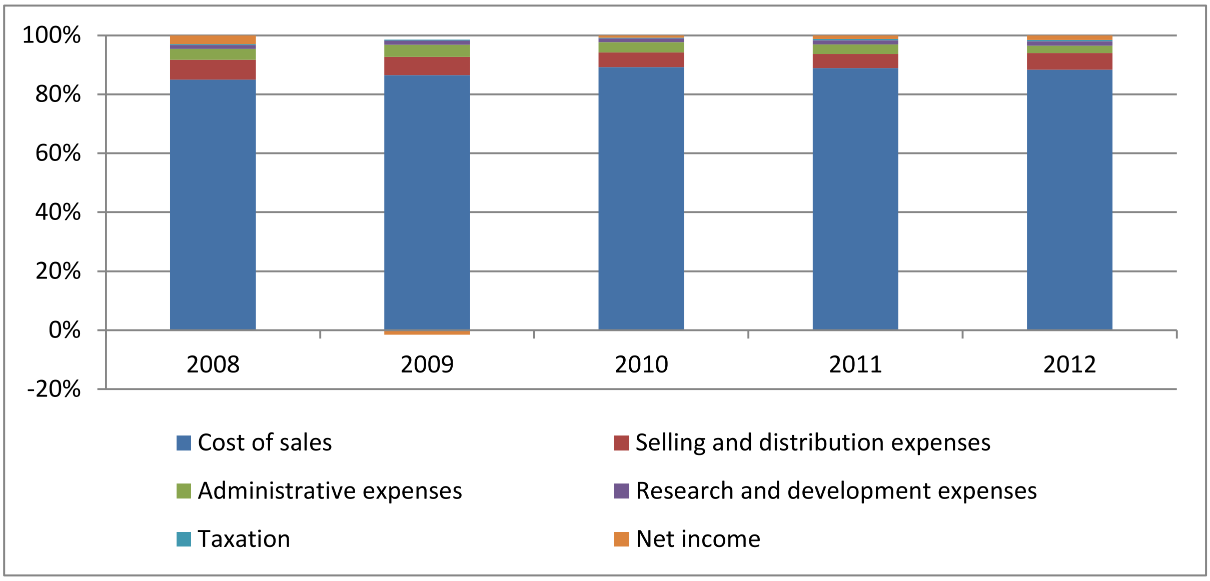
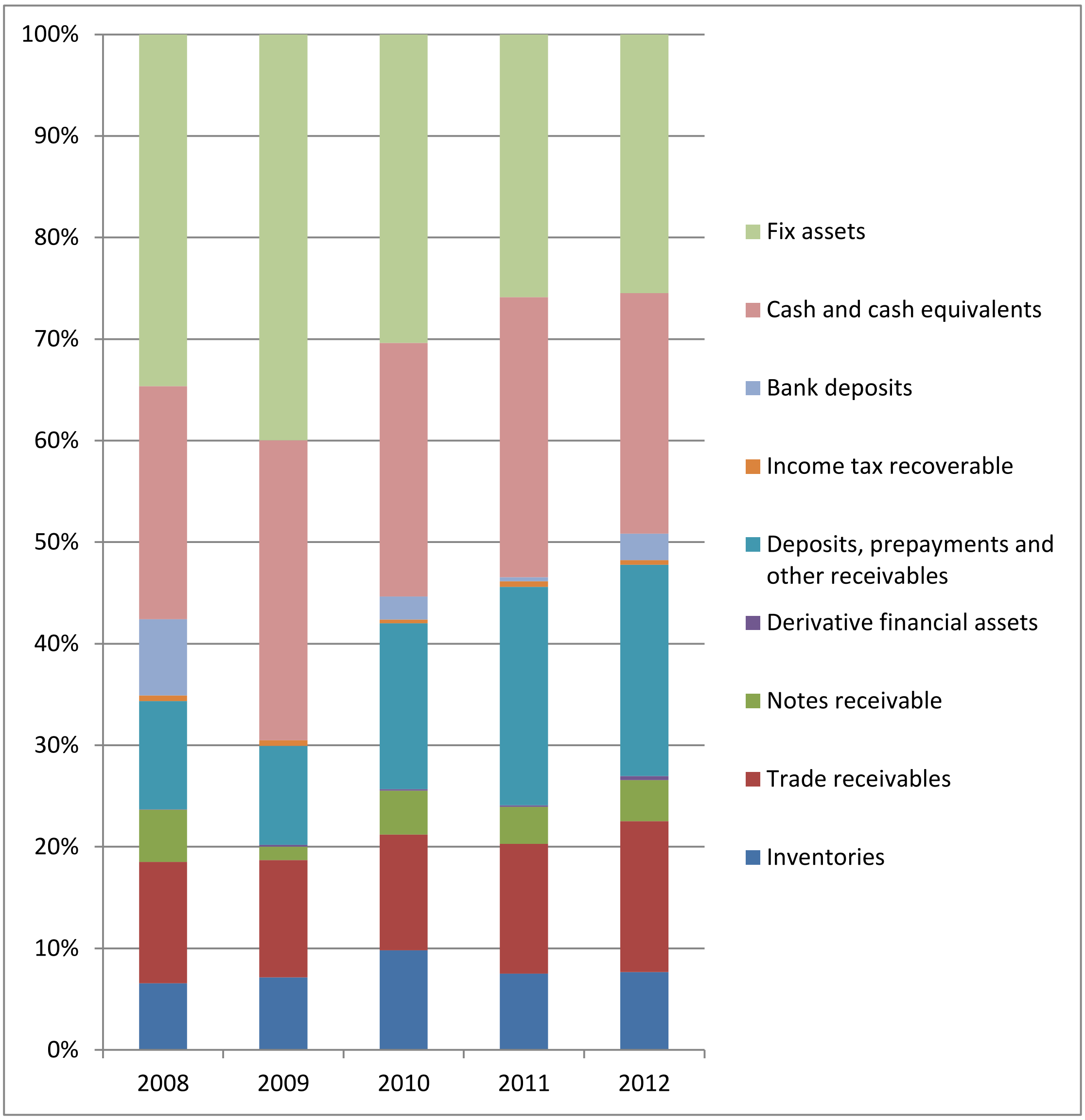


Table 4.2 Common-size statement of assets

	2008	**2009**	**2010**	**2011**	**2012**
Inventories	6.50%	7.10%	9.80%	7.50%	7.70%
Trade receivables	12.00%	11.50%	11.40%	12.80%	14.80%
Notes receivable	5.20%	1.30%	4.30%	3.70%	4.00%
Derivative financial assets	0.00%	0.20%	0.10%	0.10%	0.40%
Deposits, prepayments and other receivables	10.70%	9.70%	16.30%	21.50%	20.80%
Income tax recoverable	0.60%	0.60%	0.40%	0.50%	0.40%
Bank deposits	7.50%	0	2.20%	0.40%	2.60%
Cash and cash equivalents	22.90%	29.50%	25.00%	27.60%	23.70%
Fix assets	34.60%	40.00%	30.40%	25.90%	25.50%
Current assets	65.40%	60.00%	69.60%	74.10%	74.50%
Total assets	100.00%	100.00%	100.00%	100.00%	100.00%

Chart 4.2 Vertical common-size assets

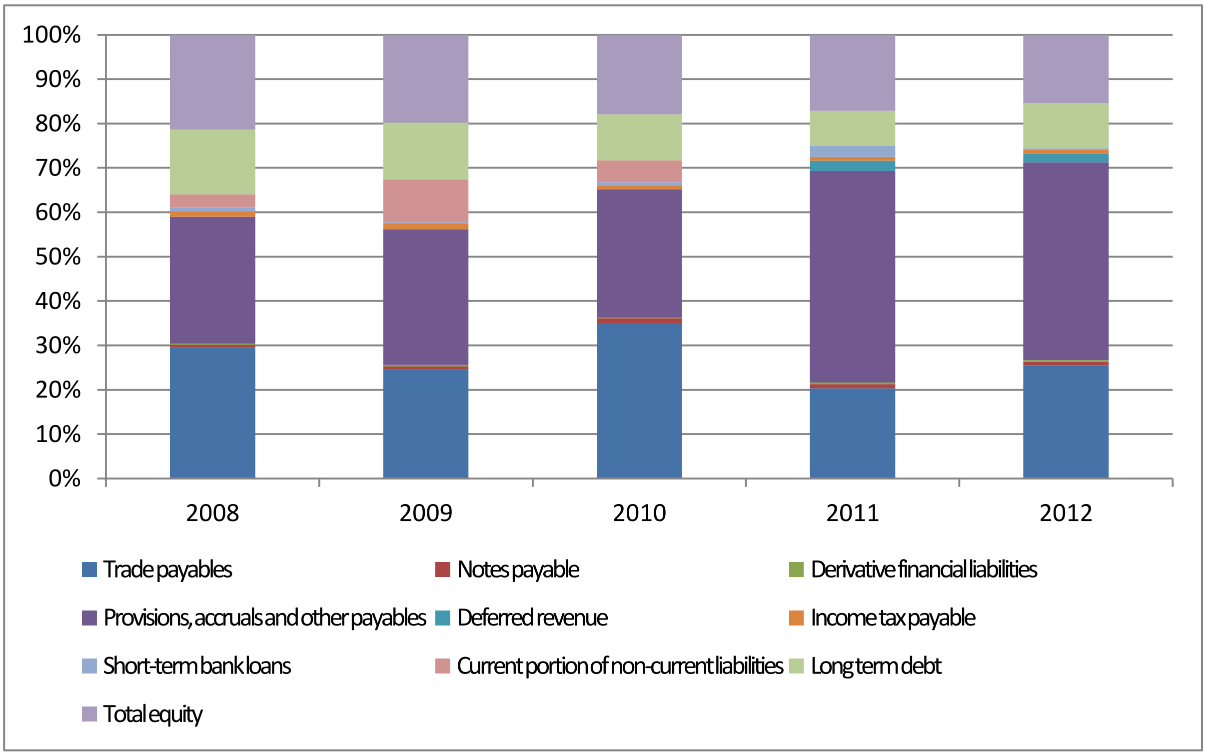


In the table 4.2 and chart4.2 we can find the trend of current asset is increasing year by year and the trend of fix asset is decreasing year by year. From 2008 to 2009, fix asset is increasing from 34.6% to 40%. From 2010 to 2012, the fix asset is decreasing from 30.4% to 25.5%. In 2012 the current asset has reached 74.5%. All in all, from table and chart the current asset occupied the most part of total asset in five years. The main reason of increasing current assets is Lenovo was trying to expand its market for its products. Lenovo invest a big amount of money to expand its market share. Also Lenovo try to expand influence of its brand.

Table 4.3 Common-size liabilities and equity of Lenovo

	2008	2009	2010	2011	2012
Trade payables	29.53%	24.70%	35.08%	20.36%	25.54%
Notes payable	0.62%	0.52%	1.05%	0.92%	0.80%
Derivative financial liabilities	0.24%	0.36%	0.13%	0.37%	0.31%
Provisions, accruals and other payables	28.64%	30.55%	28.87%	47.64%	44.60%
Deferred revenue	-	-	-	2.30%	1.96%
Income tax payable	1.16%	1.35%	0.94%	0.90%	0.85%
Short-term bank loans	0.81%	0.31%	0.72%	2.54%	0.40%
Current portion of non-current liabilities	3.04%	9.68%	4.88%	-	-
Current liabilities	64.04%	67.45%	71.68%	75.03%	74.46%
Long term debt	14.57%	12.75%	10.39%	7.83%	10.11%
Total liabilities	78.60%	80.20%	82.07%	82.86%	84.57%
Total equity	21.40%	19.80%	17.93%	17.14%	15.43%
Total equity and liabilities	100.00%	100.00%	100.00%	100.00%	100.00%

Chart 4.3 Common-size liabilities and equity of Lenovo



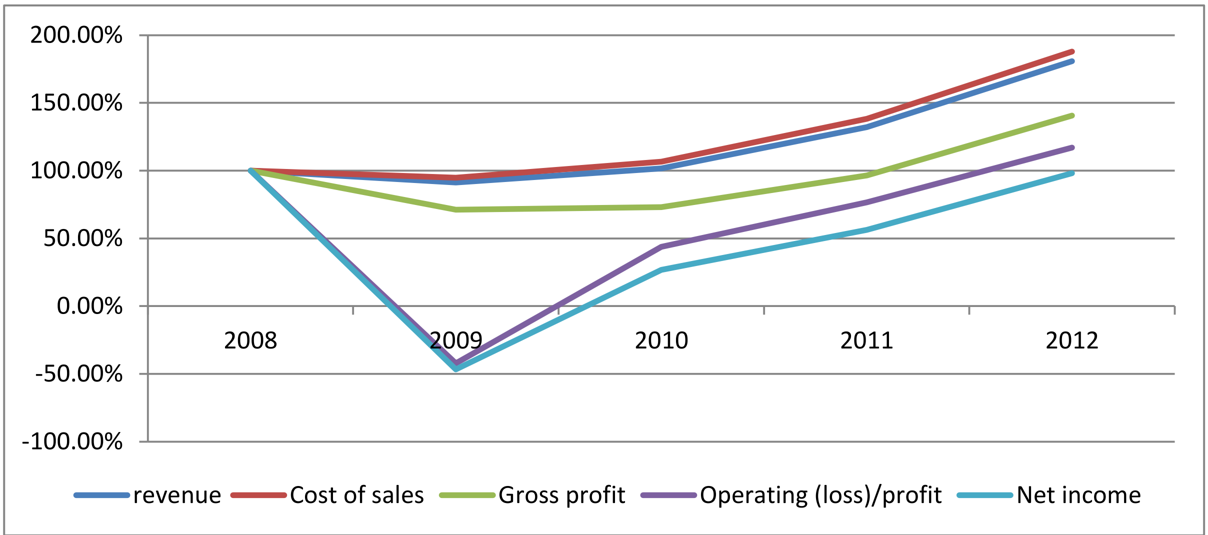
In the table 4.3 and chart4.3 we can find the total equity and long term debt are decreasing year by year. In the opposite, the current liability is increasing year by year. Total equity decreased from 21.04% in 2008 to 15.43% in 2012. Current liability increased from 64.04% in 2008 to 74.46% in 2012. Because the trend of short term debt is increasing, so the total liability is increasing from 78.6% in 2008 to 84.57% in 2012. Lenovo try to coordinate its capital structure is the main reason of this fact. By coordinate the percentage of current liabilities, Lenovo can decrease the financial risk.

4.2 Horizontal common-size analysis

Table 4.4 Common-size statement

	2008	2009	2010	2011	2012
revenue	100.00%	91.13%	101.55%	132.06%	180.87%
Cost of sales	100.00%	94.66%	106.57%	138.33%	187.95%
Gross profit	100.00%	71.09%	73.05%	96.49%	140.66%
Selling and distribution expenses	100.00%	85.03%	76.05%	94.09%	153.19%
Administrative expenses	100.00%	105.37%	95.02%	120.78%	122.55%
Research and development expenses	100.00%	95.76%	93.29%	132.06%	197.31%
Operating (loss)/profit	100.00%	-42.11%	43.82%	76.59%	117.04%
(Loss)/profit before taxation	100.00%	-36.65%	34.38%	69.76%	113.57%
Taxation	100.00%	80.74%	98.58%	177.50%	224.79%
Net income	100.00%	-46.66%	26.67%	56.32%	97.99%

Chart 4.4 Common-size statements

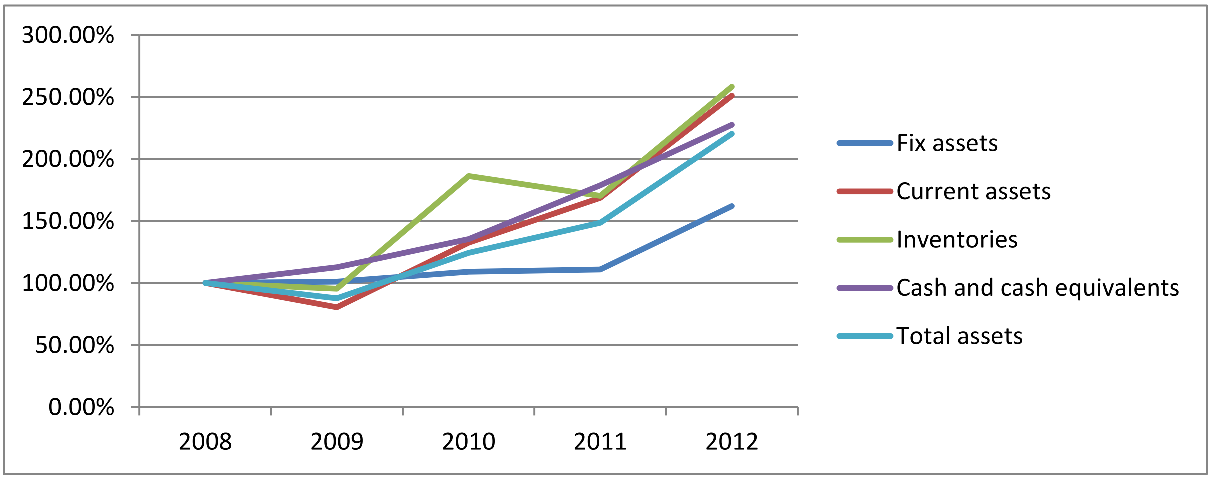


In the chart 4.4 we can see the net income is negative in 2009. It means that the company lost its profit in 2009. After 2009 the net income is increasing year by year and reached 97.99% in 2012. We can know in 2008 the net income is highest in five years. Compared with 2008 the revenue has increased by 80.87% in 2012, but we can notice the net income is 97.99% of the net income in 2008. It means the company has less efficient to get profit from its sales. The growth rate of the cost of sales is higher than the revenue. It indicates the cost of sale reduces the net income. Financial crisis is the main reason of this fact. The financial crisis during 2007-2009 caused the deficit of Lenovo.

Table 4.5 Common-size statement

	2008	2009	2010	2011	2012
Fix assets	100.00%	101.06%	109.05%	111.02%	161.97%
Current assets	100.00%	80.49%	132.52%	168.67%	251.21%
Inventories	100.00%	95.51%	186.38%	170.44%	258.40%
Trade receivables	100.00%	84.64%	118.65%	159.08%	273.65%
Notes receivable	100.00%	22.34%	104.21%	105.53%	172.27%
Deposits, prepayments and other receivables	100.00%	80.00%	190.73%	300.46%	430.50%
Income tax recoverable	100.00%	88.25%	83.90%	142.27%	176.01%
Bank deposits	100.00%	–	37.12%	7.81%	76.60%
Cash and cash equivalents	100.00%	112.83%	135.53%	178.91%	227.54%
Total assets	100.00%	87.62%	124.39%	148.70%	220.29%

Chart 4.5 Common-size statements



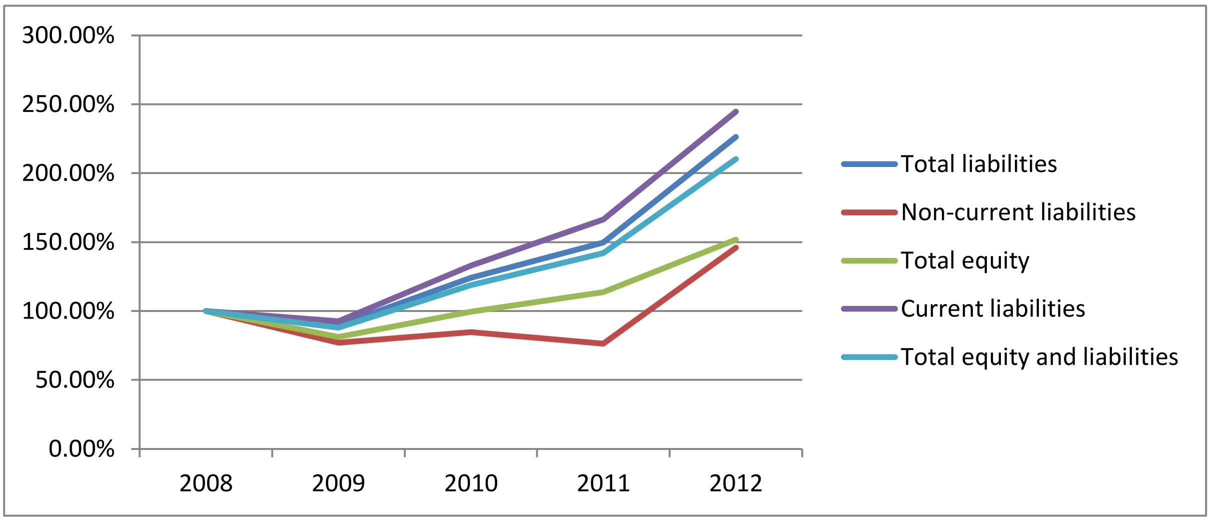
From chart 4.5 the current assets growth rate is higher than fix assets, especially in 2012 the current assets increased by 151.21%. The mainly reason is that the inventories, the trade receivables and the other receivable is much higher than before. From it we can know in 2012 the company expands the scale of production. The total asset in 2012 is increased by 120%

than 2008. And we can find from the chart that the inventories in 2010 are much higher than 2009. Expand outputs is the main reason of this fact.

Table 4.6 Common-size statement

	2008	2009	2010	2011	2012
Total liabilities	100.00%	89.62%	124.03%	149.70%	226.34%
Non-current liabilities	100.00%	76.88%	84.74%	76.35%	145.99%
Total equity	100.00%	81.26%	99.55%	113.74%	151.74%
Current liabilities	100.00%	92.51%	132.96%	166.38%	244.61%
Trade payables	100.00%	73.46%	141.12%	97.92%	181.94%
Notes payable	100.00%	73.63%	203.41%	213.19%	274.26%
Derivative financial liabilities	100.00%	130.10%	61.87%	215.55%	270.67%
Provisions, accruals and other payables	100.00%	93.67%	119.75%	236.20%	327.60%
Income tax payable	100.00%	102.58%	96.70%	110.90%	155.41%
Short-term bank loans	100.00%	33.20%	105.85%	444.24%	102.98%
Current portion of non-current liabilities	100.00%	279.34%	190.63%	-	-
Total equity and liabilities	100.00%	87.83%	118.79%	142.00%	210.37%

Chart 4.6 Common-size statements



From table 4.6 we can see the total liability in 2012 is increased by 126%, compared with 2008. The trend of total liability is increasing in five years. The main reason is the current liability has a huge increase. In current liability, the trade payables, notes payable and other payables have much more higher than before. Especially in 2012 the range of the growth rate is much larger than before. About the total equity, it just is increasing slowly in five years. The main reason of increasing total liabilities is Lenovo are using leverage to coordinate the capital structure of company. In this way, the efficient of usage in assets is better than before, but the financial risk is higher.

4.3 Financial ratios analysis

In this part we used financial ratios to analysis the company. We divide it in four parts, activity ratios, liquidity ratios, solvency ratios and profitability ratios.

4.3.1 Activity ratios

The table 4.7 shows us the data about calculating the activity and liquidity ratios

Table 4.7 Data used in activity ratios

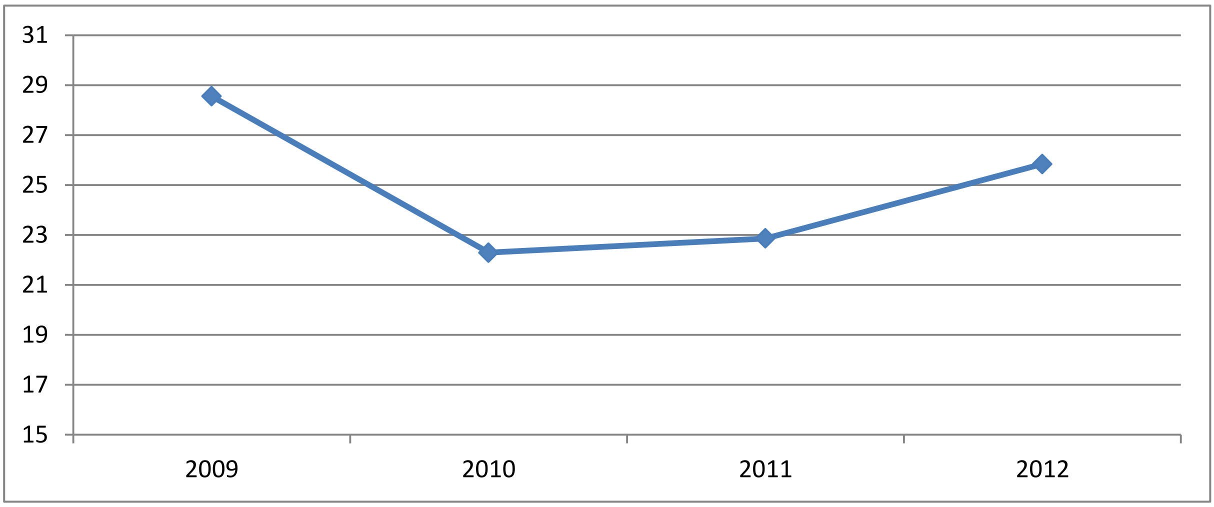
	2008	2009	2010	2011	2012
Revenue	16,351,503	14,901,351	16,604,815	21,594,371	29,574,438
Cost of sales	13,901,523	13,159,742	14,815,221	19,230,417	26,128,216
Inventories	471,557	450,370	878,887	803,702	1,218,494
Trade receivables	860,543	728,387	1,021,062	1,368,924	2,354,909
Total assets	7,199,847	6,308,299	8,955,928	10,705,939	15,860,748
Current assets	4,705,366	3,787,353	6,235,613	7,936,463	11,820,400
Current liabilities	4,827,935	4,466,527	6,419,353	8,032,653	11,809,677
Trade payables	2,226,129	1,635,290	3,141,426	2,179,839	4,050,272
Fix assets	2,494,481	2,520,946	2,720,315	2,769,476	4,040,348

A) Inventory turnover

Table 4.8 Inventory turnover

	2009	2010	2011	2012
Inventory turnover	28.5	22.2	22.8	25.8

Chart 4.5 Inventory turnover



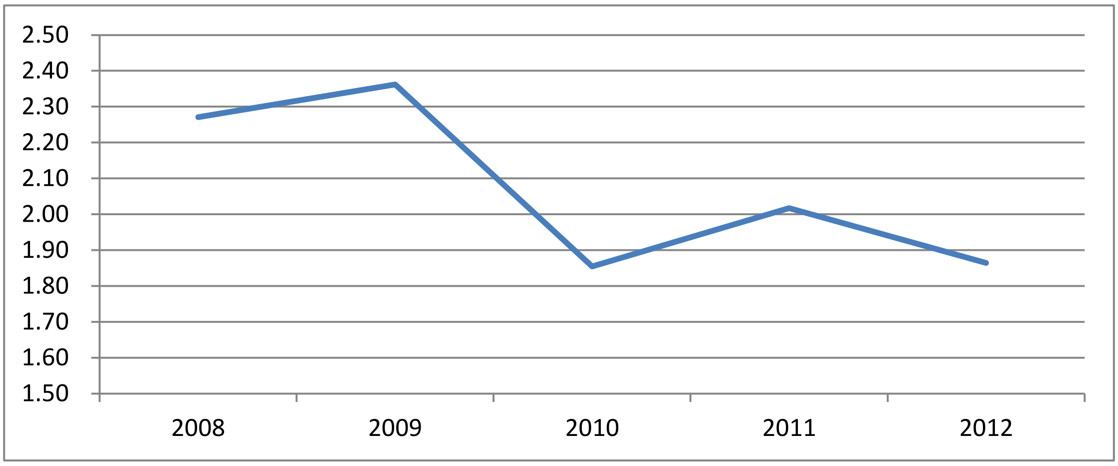
From chart 4.5 we can see the inventory turnover is very high in 2009 and then it decreased in 2010. From the 2010 the inventory turnover is increasing steady. In PC industry there are many PC companies competing each other in this field. Beside their product have no evident differences. So it is a mature market. It leads to the cost of product takes a large part in whole product. So in PC field the inventory turnover is at a high level. The main reason why the inventory turnover decreased in 2010 is that the company has too many inventories in 2010. After the 2008 financial crisis the Lenovo is also in a downturn. In 2010 the economic is in recovery. The Lenovo began to expand their sales of products. Naturally their inventory is increased in 2010. Although in 2011 and 2012 the inventory is more than the 2010, we can see the cost of sale is also increasing quickly. It indicates the scale of production is expanding year by year. The trend of the inventory turnover is upward. It means the company has higher ability to convert inventory into cash and receivable accounts.

B) Total assets turnover

Table 4.8 Total assets turnover

	2008	2009	2010	2011	2012
Total assets turnover	2. 27	2. 36	1. 85	2. 02	1. 86

Chart 4.6 Total assets turnover



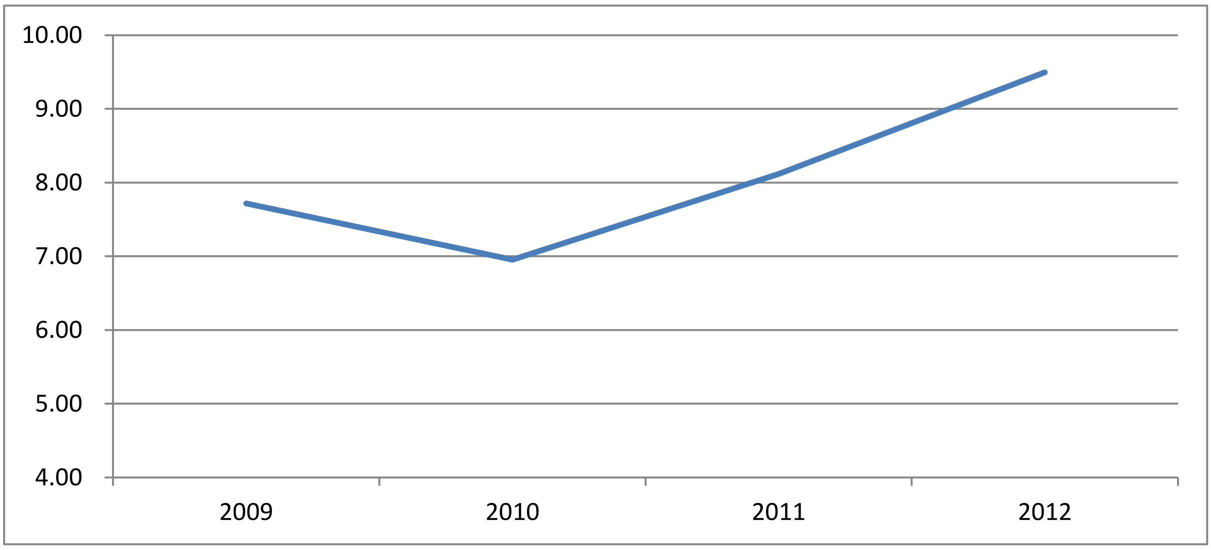
In chart 4.6 we can see the trend of the total assets turnover is decreasing in five years. In 2010 the total assets turnover is at a lowest point .The main reason is the total assets had a larger amount in 2010 and the revenue is smaller than before. The trend of total assets turnover is downward. It indicates the management of assets is poor. The whole trend shows the company assets utilization is reducing. Lenovo invests a lot of money to expand its market share, but it still needs times for it. So revenue of Lenovo is not as well as it expects.

C) Receivable turnover

Table 4.9 Receivable turnover

	2009	2010	2011	2012
Receivable turnover	7.72	6.95	8.12	9.49

Chart 4.7 Receivable turnovers



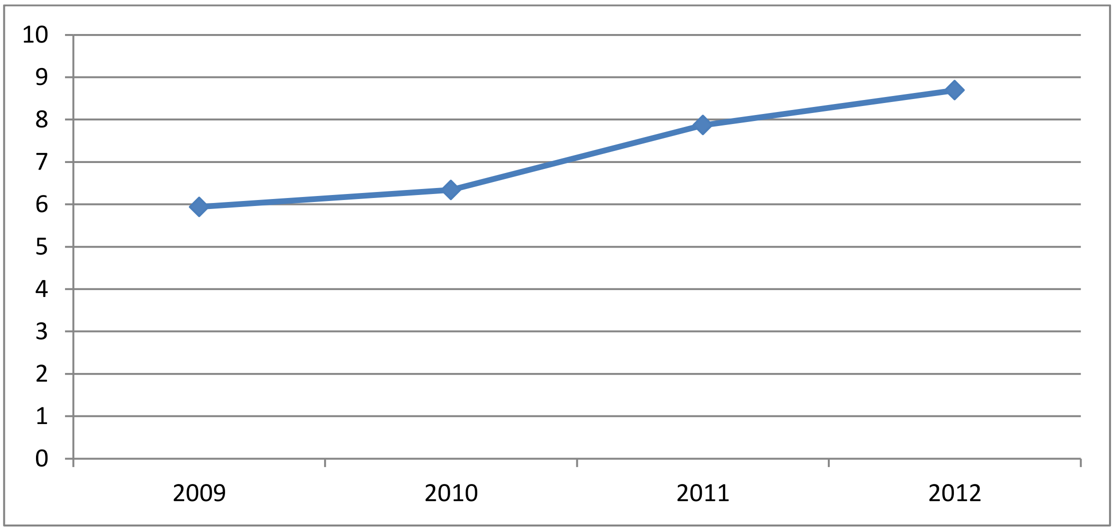
In the chart 4.7 we can see the receivable turnover is decreasing from 2009 to 2010. After the 2010 the receivable turnover is increasing from 2010 to 2012. The main reason is that the financial crisis influences the company's revenue in 2009. So the trade receivable is reduced in 2009. It leads to the decline of receivable turnover in 2010. From the 2010 to 2012 the growth rate of the revenue is growing more quickly than the trade receivable. So the tread is increasing. It means the company has a better operating capacity and faster recovery of receivable and has advantage on short-term solvency.

D) Fix assets turnover

Table 4.10 Fix assets turnover

	2009	2010	2011	2012
Fix assets turnover	5. 94	6. 34	7. 87	8. 69

Chart 4.8 Fix assets turnover



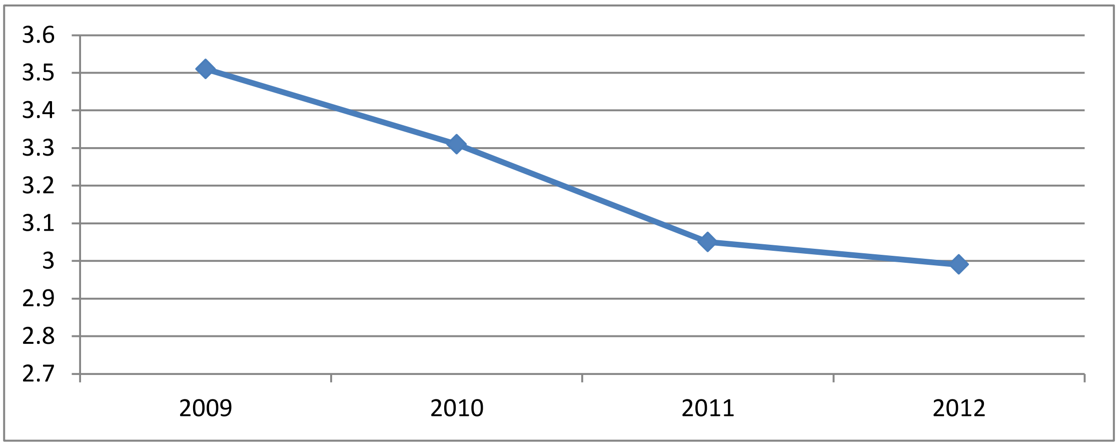
In the chart 4.8 the trend of fix assets turnover is increasing in five years. In these five years the company expanded their fix assets to create more production and meet the demand of market. In fix assets the Lenovo invested a large amount in intangible assets, such as their brand, technology and patent. The Lenovo got much more revenue from those investments. From the trend it indicates the high efficiency of the use of their fixed assets. It benefits the company's profitable.

E) Current assets turnover

Table 4.11 Current assets turnover

	2009	2010	2011	2012
current assets turnover	3.51	3.31	3.05	2.99

Chart 4.9 Current assets turnover



The chart 4.9 shows us the trend of current assets turnover is decreasing in five years. The Inventory, trade receivable and cash have a faster growth than their revenue in five years. The percentage of current assets in total assets is increasing and the market share is increasing during 2009 to 2012. But the increase of revenue is lower than the increase of current assets. The Lenovo has a large amount idle asset in current assets. In this part the Lenovo should enhance management in current assets and improve their utilization.

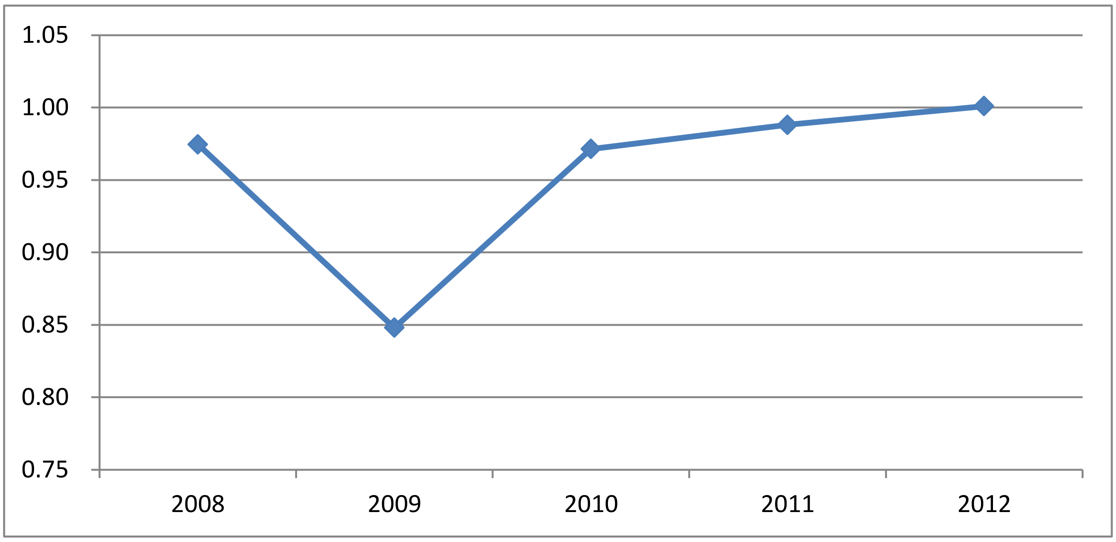
4.3.2 Liquidity ratios

A) Current ratios

Table 4.13 Current ratios

	2008	2009	2010	2011	2012
Current ratio	0.97	0.85	0.97	0.99	1.00

Chart 4.11 Current ratios



Generally, we can say the company has a good current ratio if the current ratio is more than 2. From the chart 4.11 we can see the current ratio is lower than 1 in five years. It means the company's ability to pay for short-term liquidity is not good. Especially, in 2009 the current ratios is only 0.85. The main reason is that the current asset is reduced by the financial crisis. So the ability of the company to repay short-term debt is poor during that period. From 2010 to 2012, the market environment is better than 2009, so the current ratio is keep increasing.

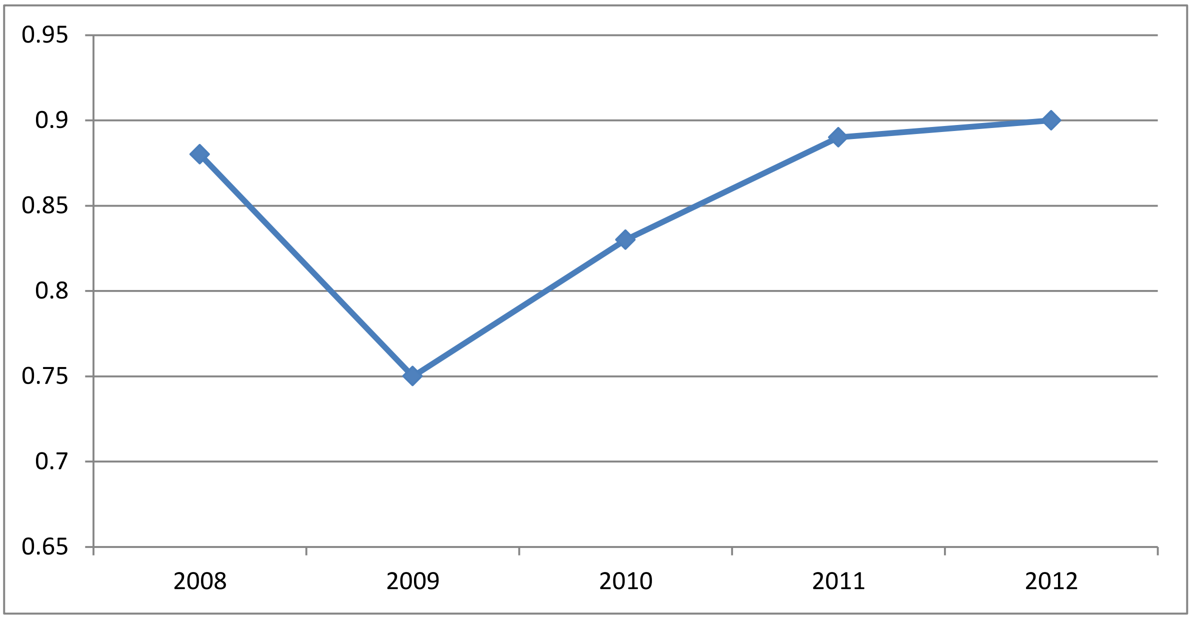
B) Quick ratios

From the chart 4.12 we can find the trend is similar like the trend of the current ratios. The difference is that they have different absolute value. Generally, if the quick ratio is more than 1, the company has a good short-term liquidity. From the table 4.14 the absolute value is very approximate 1. It indicates the ability of the company to repay the short-term debt is strengthening year by year. Especially, in 2012 the quick ratio is increased to 0.9. Because of the increasing of Lenovo's market share during 2009 to 2012, so the inventory of Lenovo is keep increasing. So the quick ratio is keep increasing during that period.

Table 4.14 Quick ratios

	2008	2009	2010	2011	2012
quick ratios	0.88	0.75	0.83	0.89	0.9

Chart 4.12 Quick ratios



4.3.3 Solvency ratios

Table 4.15 Date used in solvency ratios

	2008	2009	2010	2011	2012
Total liabilities	5,926,058	5,310,748	7,349,910	8,871,039	13,412,779
Total assets	7,199,847	6,308,299	8,955,928	10,705,939	15,860,748
Long-term debt	1,098,123	844,221	930,557	838,386	1,603,102
Total equity	1,613,263	1,310,915	1,606,018	1,834,900	2,447,969

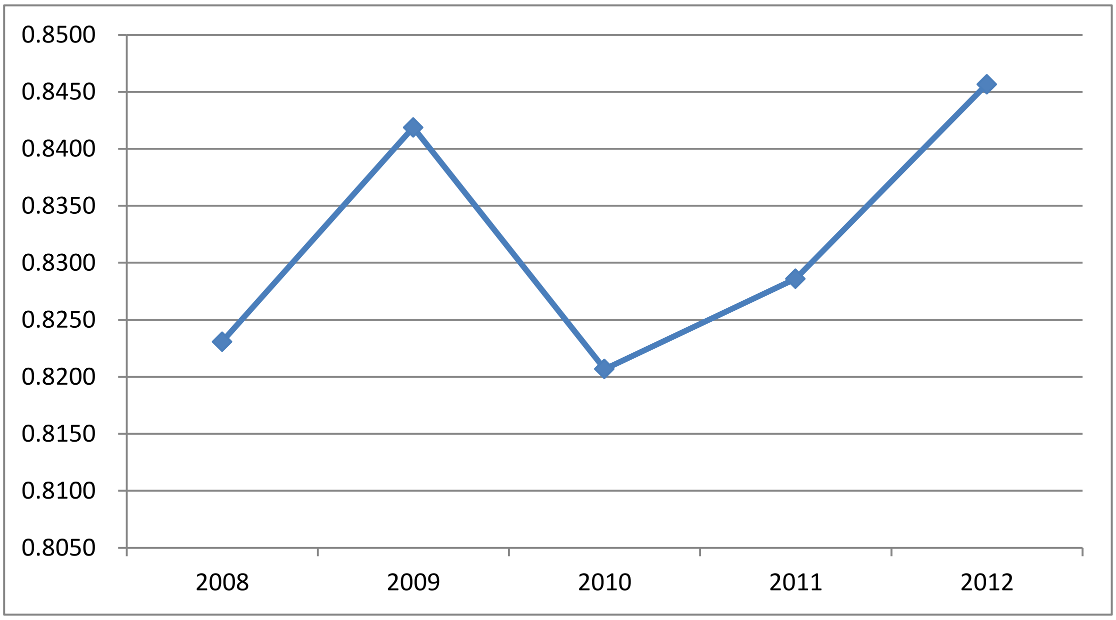
A) Debt-to-assets ratio

Table4.16 Debt-to-assets ratio

	2008	2009	2010	2011	2012
Debt-to assets ratio	0. 8231	0. 8419	0. 8207	0. 8286	0. 8457

From the table 4.16 we can find the debt to assets ratio is always more than 80% in five years. The total liability is increasing from 2008 to 2012. Although the total assets keep growing in every year, the total liability always occupies most part in the total assets. The current liability is the main part of the total liability. In recent years the Lenovo invested some projects and industries. Until now those projects haven't get profit. This is a one reason. Another reason is that the Lenovo invests large amount money in emerging market. Until now the Lenovo hasn't get profit from the emerging market. The both are reasons why the Lenovo has so high debt-to-assets ratios. So the company has a great solvency risk.

Chart 4.13 Debt-to-assets ratio



B) Long-term debt-to-assets ratio

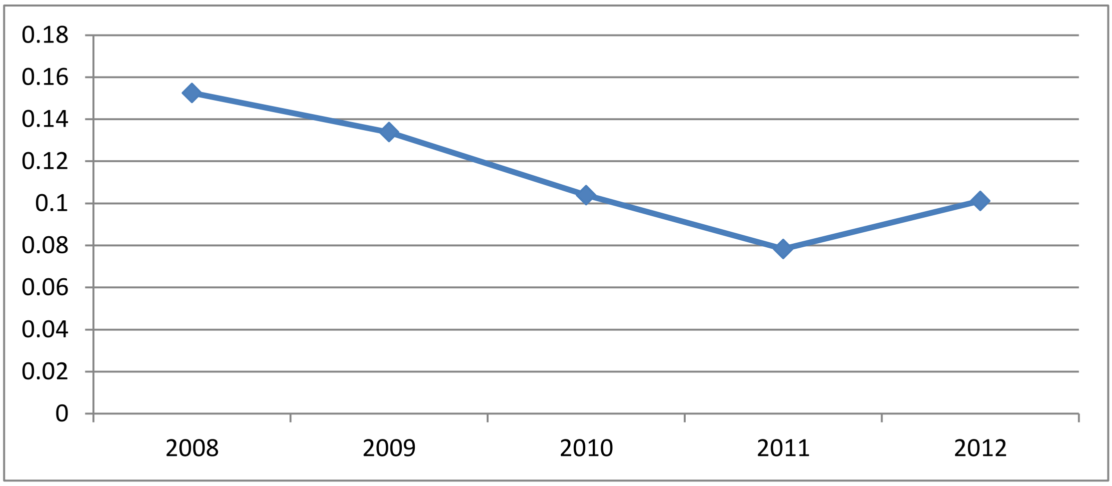
Table 4.17 Long-term debt-to-assets ratio

	2008	2009	2010	2011	2012
Long-term debt-to-assets ratio	0. 1525	0. 1338	0. 1039	0. 0783	0. 1011

From 2008 to 2011 the long term debt to assets ratio is decreasing. But from 2011 to 2012 the ratio has an upward trend. The main reason is that long term debt keeps decreasing in previous four years. In 2012, the long term debt increased to a large number. From the table 4.17 the ratio is not so large. It means the company has less pressure on the long-term debt.

We can indicate that Lenovo is trying to coordinate the liabilities structure to have a lower financial risk.

Chart 4.14 Long-term debt-to-assets ratio

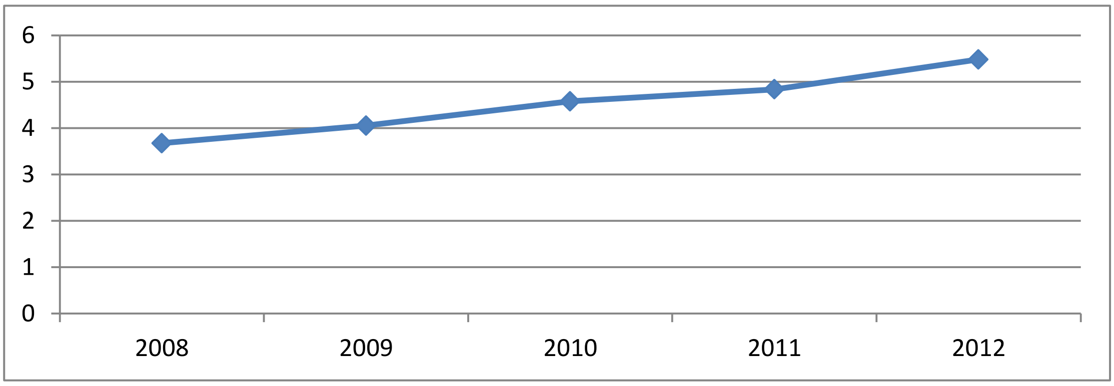


C) Debt-to-equity ratio

Table 4.17 Debt-to-equity ratio

	2008	2009	2010	2011	2012
Debt-to-equity ratio	3. 6733	4. 0512	4. 5765	4. 8346	5. 4791

Chart 4.15 Debt-to-equity ratios



In the table 4.17 we can see the debt to equity ratio is higher than 300% in five years. In 2012 the ratio increased to 547%. It indicates the liability is too high and the creditors have a great risk. In the chart 4.15 the trend of the ratio shows an upward trend. It means the level of protection of the creditors' capital is reducing year by year. The increasing of current liabilities is the main reason of this fact. The increasing market share causes the increase of current liabilities.

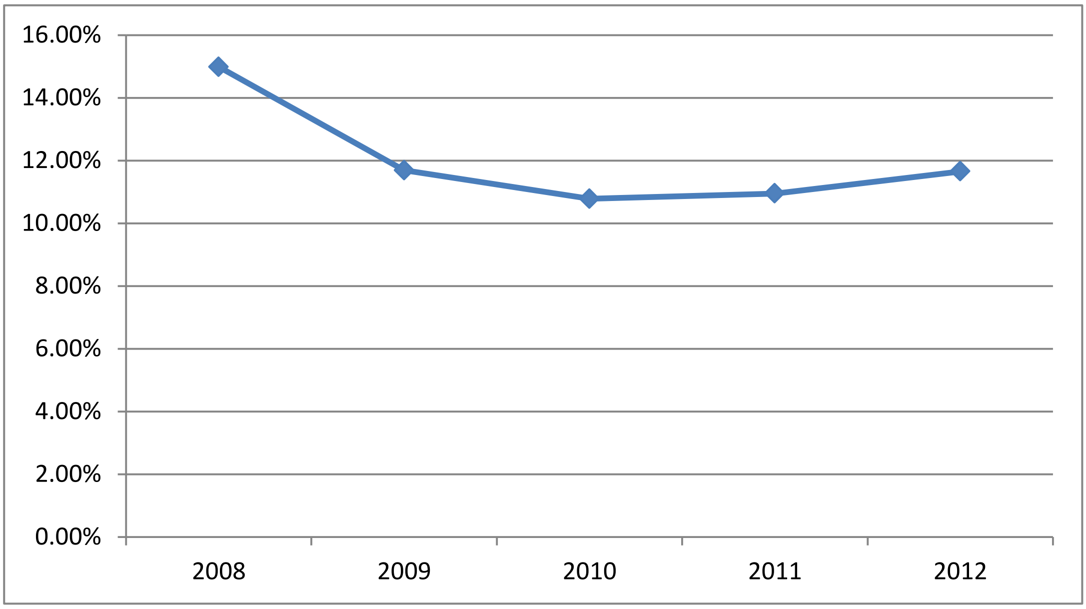
4.3.4 Profitability ratios

A) Gross profit margin

Table 4.19 Gross profit margin

	2008	2009	2010	2011	2012
Gross profit margin	14. 98%	11. 69%	10. 78%	10. 95%	11. 65%

Chart 4.17 Gross profit margin



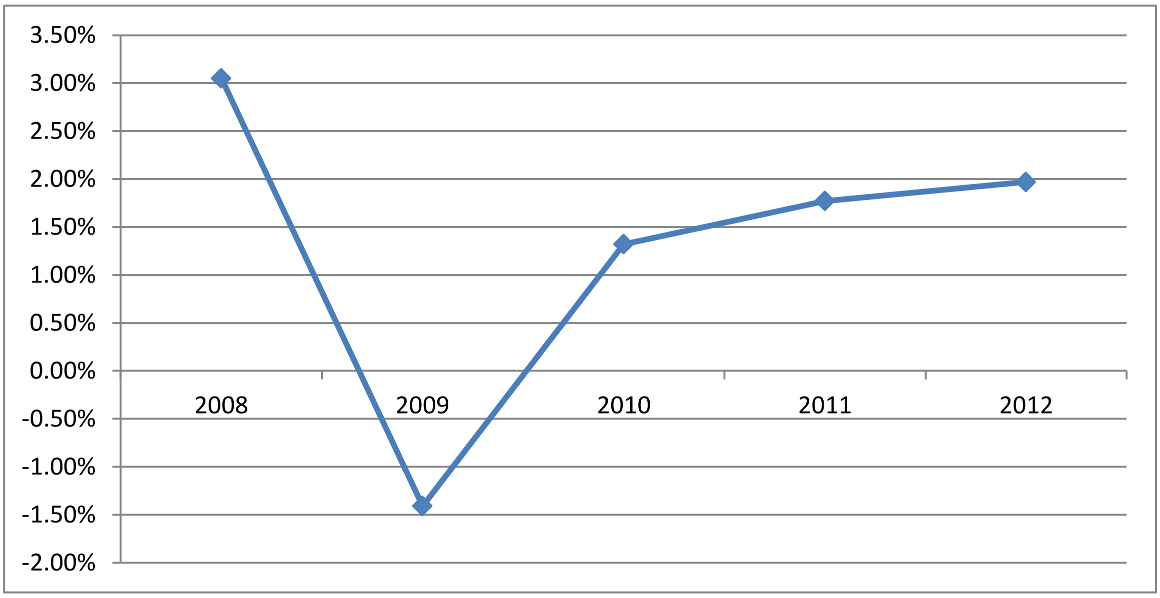
In the table 4.19 we can see the gross profit margin is not more than the 15% in five years. From 2008 to 2010 the trend is decreasing. From 2010 to 2012 the trend is increasing, but no so quickly. In PC field the cost of sales is always high. It has been a mature industry. The profitability of the industry is a downgrade trend. In addition to this, the Lenovo want to use a lower price to expand their market. So the cost of sales is relative too high. It leads to the reduced gross profit. From the 2010 to 2012 the gross profit margin has an upward trend. That is because the Lenovo occupied a large market in PC field. The company benefits from the economies of scale.

B) Operating profit margin

Table 4.20 Operating profit margin

	2008	2009	2010	2011	2012
Operating profit margin	3. 05%	−1. 41%	1. 32%	1. 77%	1. 97%

Chart 4.18 Operating profit margins



From the table 4.20 the operating profit margin is very small. The main reason is the cross profit is small. Another reason is the expenses are little large in selling and administrative. In 2009 the operating profit margin is negative. The reason is the financial crisis has a bad impact on the sales of products. Especially the foreign market, the situation is worse than before. From 2009 to 2012 the operating profit is increasing by the time. The main reason is that the international economic is recovering in this period. Another reason is the Lenovo actively expands the PC market and gets benefit from increase of sales of products.

C) Net profit margin

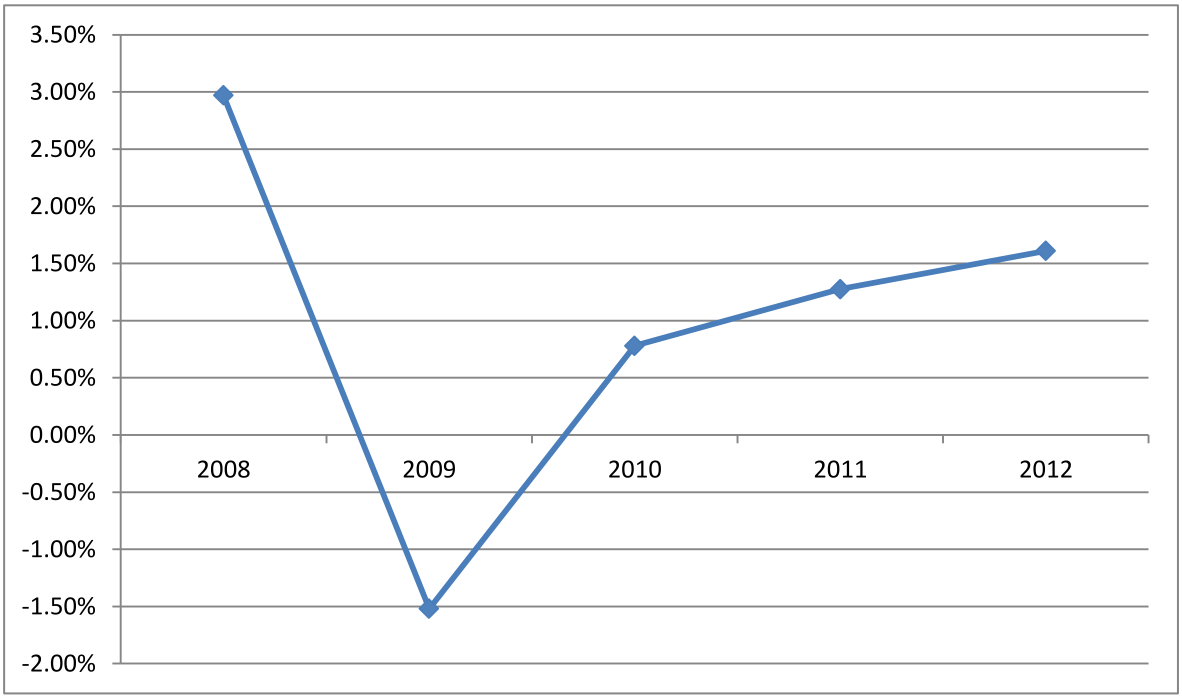
Table 4.21 Net profit margin

	2008	2009	2010	2011	2012
Net profit margin	2. 97%	−1. 52%	0. 78%	1. 28%	1. 61%

In chart 4.19 we can find the net profit margin has a same trend of operating profit margin.

The reason of changing is also the same. From table 4.21 the net profit margin always is under 2% apart from the net profit margin in 2008. It means the company's profitability is not strong. The net profit of the Lenovo relies on PC too much. However the PC industry is a mature industry. Naturally the profitability is poor. The business income tax is also an important reason. In china the business income tax is 25%. It's a heavy burden to the Lenovo. The both reasons lead to the low net profit margin.

Chart 4.19 Net profit margins

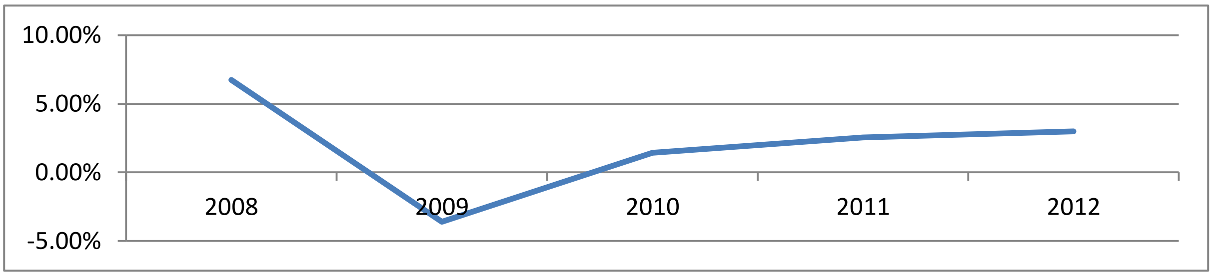


D) ROA

Table 4.22 ROA

	2008	2009	2010	2011	2012
ROA	6.74%	-3.59%	1.44%	2.55%	3.00%

Chart 4.20 ROA



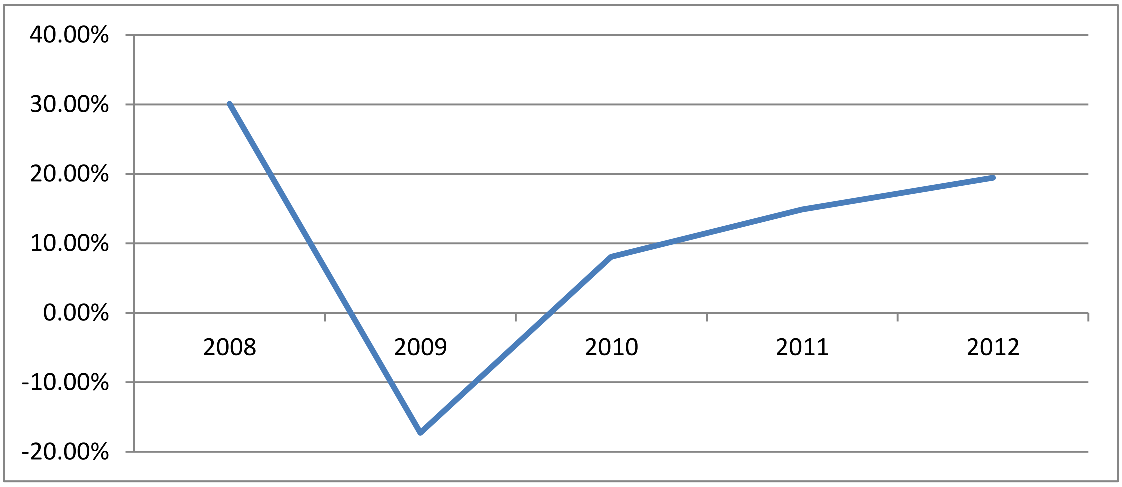
From the chart 4.20 we can see the ROA is decreasing from 2008 to 2009. In 2009 the ROA is negative. It indicates the company is operating their company with negative return. The higher the index, the better asset utilization the company has. It means the enterprise has achieved good results in increasing revenue and saving assets. From table the ROA is a small value. The main reason is that the net profit is too small. In addition to this, there have some problems with the management of the Lenovo's assets. From the balance statement we can find the Lenovo has a large amount of cash, deposit and trade receivable. It results in a waste of assets in operating. The lower the utilization rate of asset is another reason why the ROA is so small. From 2010 to 2102 the trend of ROA is upward. That is because the Lenovo gets profit from expanding the sales of products. Also the financial crisis from 2007 to 2009 causes the negative position in 2009.

E) ROE

Table 4.23 ROE

	2008	2009	2010	2011	2012
ROE	30.07%	-17.27%	8.06%	14.89%	19.42%

Chart4.21ROE



In the chart 4.21 we can see the same trend as ROA. Because of the net income is negative in 2009. So the ROE is negative in 2009. Of course it is influenced by the financial crisis. The growth rate of the total equity is very slow and in a long time the amount is not large, as a result the ROE increases so much from 2009 to 2012. In 2012 ROE is increased to 19.42%. It indicates the shareholder of the company can earn more money from their stocks.

4.4 DuPont analysis

Chart 4.4.1 DuPont analysis About Lenovo from 2011 to 2012

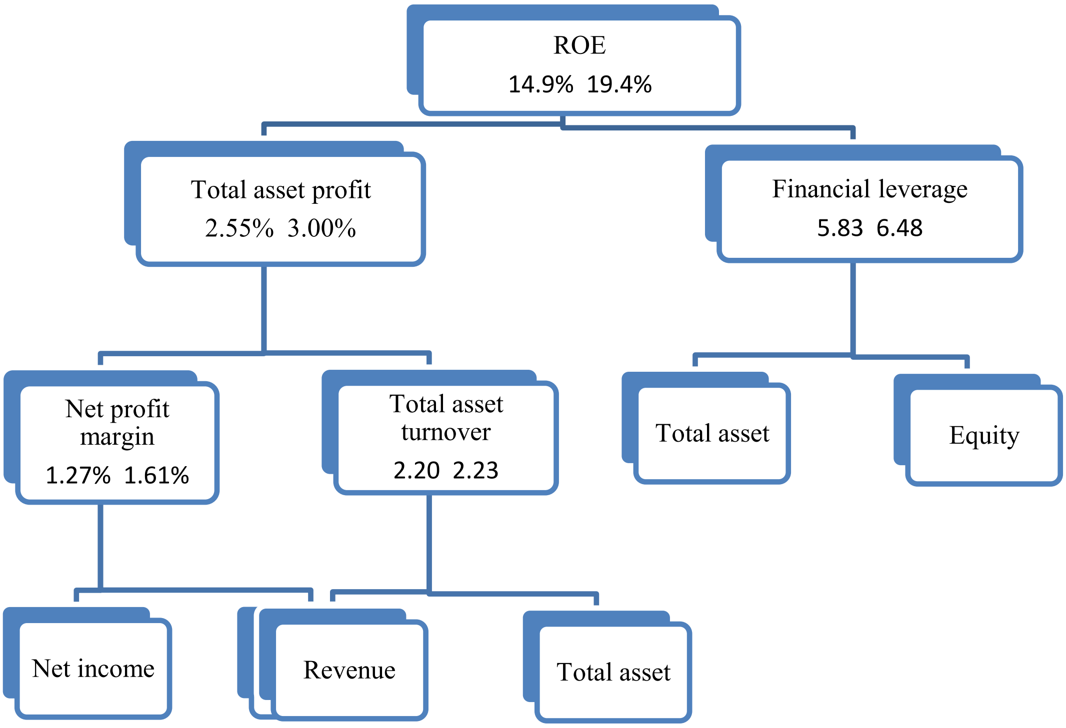


Table4.4.1 Method of gradual changes:

	A_{2011}	A_{2012}	Δ_A	Δ_{ai}	order
$A_{1=EAT/Rev}$	0.0127	0.0161	0.0034	4.00%	1
$A_{2=Rev/Asset}$	2.02	1.86	-0.16	-1.18%	3
$A_{3=Asset/Equity}$	5.83	6.48	0.65	1.69%	2
Sum				4.5%	

For A1: ∆ROE=0.0034*2.02*5.83=4.0%

For A2: ∆ROE=0.0161*(-0.16)*5.83=-1.18%

ForA3: ∆ROE=0.0161*1.86*0.65=1.69%

From the table 4.4.1 we can see the net profit margin is the most contribute to ROE, it is 4%. In 2012 the company expands the sale of their products and gets more revenue. Although the cost of sale increases quickly as the revenue, the selling expense and administrative expense doesn't increase so much. The company benefits from the economies of scale.

The total asset turnover is -1.18% on the influence of ROE. It means the total asset turnover has negative contribution to the ROE. Comparing with 2011, in 2012 the growth rate of asset is more than the revenue. It leads to asset turnover reduced in 2012. Although the company expanded the revenue, it used a larger amount asset. It means the utilization of asset is reducing.

Financial leverage is on the second position. It is 1.69%. From 2011 to 2012, the equity increased 33.4% and the liability increased 51.2%. So we can conclude the financial leverage is mainly caused by the liability increased.

5 Conclusions

The rise of tablet computers and smart phones are forming a great impact on the PC industry. In the long term, the shipments of the tablet computers and smart phoned will continue to increase. In the future the shipments of the PC will be reduced and The PC industry will be in depressed situation. As a PC company, the Lenovo should seek to the diversified development. If PC Company wants to survive in this situation, they shouldn't only focus on traditional PC. They can also make the tablet computers and smart phone. By diversified development, they can keep up with the market.

Technological innovation is a key part for Lenovo. In IT industry who has advanced technology can win the future. Technological innovation is Lenovo's weakness. That is why the Lenovo has a poor profitability. Their products haven't their own patent. That result in the high cost. It leads to the net income reduced. To a large extent, the most profit benefits from the economies of scale. The Lenovo should increase the investment in research and development. If not, it will be eliminated by market.

The Lenovo has a large marketing channel. The Lenovo's the operation ability is fine. The inventory turnover is fast. It benefits from the marketing channel. In this industry, their update is very quick. If the inventory is not fast, their product may be out of style and then lead to the loss of their profit. Every year the Lenovo's sales have a so great growth. It depends on the marketing channel. This is a reason of the Lenovo's success in china. The receivable turnover is also good. The Lenovo has no difficulty to collect on their sale.

Expending market share is Lenovo's main strategy. Lenovo's short term solvency is not good. Their current ratio and quick ratio have a lower point. But they have a good tendency in recently years. Their long term solvency is good. But the debt to asset and the debt to equity are very high. For expanding the emerging market Lenovo invests large amount money in improving distribution channels and brand. Until now in emerging market the profit is at loss situation. This is main reason why the debt to asset is so high.

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List of abbreviations

EAT	Earning after tax
EBIT	Earnings before Interest and Tax
EBT	Earnings before Tax
ROA	Return on Assets
ROE	Return on Equity

Declaration of Utilization of Results from a Bachelor Thesis

Herewith I declare that

- I am informed that Act No. 121/2000 Coll. – the Copyright Act, in particular, Section 35

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Ostrava dated May 10, 2013

Peiye Shi

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Student´s name and surname

List of annexes

Annex 1

Lenovo income statement from 2008 to 2012. (In million dollars)

At years' 31 December

	2008	2009	2010	2011	2012
Sales	16,351,503	14,901,351	16,604,815	21,594,371	29,574,438
Cost of sales	-13,901,523	-13,159,742	-14,815,221	-19,230,417	-26,128,216
Gross profit	2,449,980	1,741,609	1,789,594	2,363,954	3,446,222
Other income – net	17,261	929	83,126	419	1,199
Selling and distribution expenses	-1,103,713	-938,451	-839,388	-1,038,455	-1,690,778
Administrative expenses	-595,902	-627,903	-566,245	-719,708	-730,294
Research and development expenses	-229,759	-220,010	-214,343	-303,413	-453,334
Other operating income/expenses – net	-38,823	-166,305	-34,058	79,427	11,070
Operating (loss)/profit	499,044	-210,131	218,686	382,224	584,085
Finance income	52,048	59,977	20,377	24,927	42,693
Finance costs	-38,366	-38,142	-62,881	-49,175	-43,484
Share of profits of associated companies	124	351	121	-225	-851
(Loss)/profit before taxation	512,850	-187,945	176,303	357,751	582,443
Taxation	-47,613	-38,444	-46,935	-84,515	-107,027
Net Income	485,157	-226,389	129,368	273,236	475,416

Annex 2

Lenovo cash flows from 2008 to 2012. (In million dollars)

At years' 31 December

	2008	2009	2010	2011	2012
Net cash generated from operations	1,131,804	19,961	976,873	1,089,097	2,126,765
Interest paid	-41,197	-41,976	-59,891	-48,089	-38,477
Tax paid	-81,759	-75,292	-82,231	-75,754	-148,332
Net cash (used in)/generated from operating activities	1,008,848	-97,307	834,751	965,254	1,939,956
Net cash generated from/(used in) investing activities	-733,937	432,243	-255,056	65,519	-837,071
Exercise of share options	34,829	9,433	13,640	25,116	10,889
Repurchase of shares	-42,583	-53,907	-	86,610	-
Contributions to employee share trusts	-63,177	-17,169	-	-	-
Dividends paid	-67,087	-179,159	-11,896	-87,870	-114,687
Net increase in bank borrowings	428,683	124,493	-218,884	-223,145	-211,726
Net cash (used in)/generated from financing activities	290,665	116,309	-217,140	-372,509	-315,524

Annex 3

Lenovo balance sheet from 2008 to 2012. (In million dollars)

At years' 31 December

	2008	2009	2010	2011	2012
Non-current assets	2,494,481	2,520,946	2,720,315	2,769,476	4,040,348
Property, plant and equipment	364,778	314,142	248,261	209,417	392,474
Prepaid lease payments	6,099	5,833	3,748	9,682	13,552
Construction-in-progress	51,237	47,062	24,711	32,092	103,986
Intangible asset	1,838,368	1,852,861	2,066,337	2,134,452	3,091,205
Interests in associated companies	2,690	2,635	1,061	914	3,410
Deferred tax assets	156,440	190,844	254,978	251,098	332,493
Available-for-sale financial assets	67,697	101,916	112,520	78,689	71,946
Other non-current assets	7,172	5,653	8,699	53,132	31,282
Current assets	4,705,366	3,787,353	6,235,613	7,936,463	11,820,400
Inventories	471,557	450,370	878,887	803,702	1,218,494
Trade receivables	860,543	728,387	1,021,062	1,368,924	2,354,909
Notes receivable	371,126	82,927	386,746	391,649	639,331
Derivative financial assets	3,392	13,163	13,283	13,295	62,883
Deposits, prepayments and other receivables	767,268	613,826	1,463,422	2,305,325	3,303,053
Income tax recoverable	40,002	35,301	33,562	56,912	70,406
Bank deposits	540,058	–	200,456	42,158	413,672
Cash and cash equivalents	1,651,420	1,863,379	2,238,195	2,954,498	3,757,652
Total assets	7,199,847	6,308,299	8,955,928	10,705,939	15,860,748
	2008	2009	2010	2011	2012
Total equity	1,613,263	1,310,915	1,606,018	1,834,900	2,447,969
Share capital	29,699	29,530	31,388	31,941	33,131
Reserves	1,583,390	1,281,208	1,574,453	1,802,780	2,328,104
Shareholders' funds	1,613,089	1,310,738	1,605,841	1,834,721	2,361,235
Minority interests	174	177	177	179	86,734
Total liabilities	5,926,058	5,310,748	7,349,910	8,871,039	13,412,779
Non-current liabilities	1,098,123	844,221	930,557	838,386	1,603,102
Interest-bearing bank loans	465,000	230,000	200,000	-	-
Convertible preferred shares	211,181	215,974	94,980	-	-
Warranty provision	209,071	170,008	301,234	395,242	291,111
Deferred revenue	88,701	118,993	218,034	277,205	381,593
Retirement benefit obligations	85,490	68,000	80,867	74,870	204,818
Derivative financial liabilities	1,788	7,382	248	-	-
Deferred tax liabilities	-	-	10,331	17,093	83,594
Other non-current liabilities	36,892	33,864	24,863	73,976	641,986
Current liabilities	4,827,935	4,466,527	6,419,353	8,032,653	11,809,677
Trade payables	2,226,129	1,635,290	3,141,426	2,179,839	4,050,272
Notes payable	46,421	34,180	94,427	98,964	127,315
Derivative financial liabilities	18,197	23,674	11,259	39,223	49,253
Provisions, accruals and other payables	2,159,422	2,022,758	2,585,850	5,100,562	7,074,196
Deferred revenue	-	-	-	245,793	310,159
Income tax payable	87,209	89,459	84,329	96,711	135,530
Short-term bank loans	61,130	20,293	64,706	271,561	62,952
Current portion of non-current liabilities	229,427	640,873	437,356	-	-
Total equity and liabilities	7,539,321	6,621,663	8,955,928	10,705,939	15,860,748